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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019.

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

For the transition period from to

Commission file number: 001-38482

HUYA Inc.
(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English)

Cayman Islands
(Jurisdiction of incorporation or organization)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
American Depositary Shares, each representing one Class A ordinary share, par value US$0.0001 per share	HUYA	New York Stock Exchange
Class A ordinary shares, par value US$0.0001 per share*		New York Stock Exchange

(1) * Not for trading, but only in connection with the listing on the New York Stock Exchange of our American depositary shares, each representing one Class A ordinary share.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2019, there were 219,458,635 ordinary shares outstanding, being the sum of 67,101,314 Class A ordinary shares (excluding 938,423 Class A ordinary shares issued to our depositary bank for bulk issuance of ADSs reserved for issuances upon the exercise or vesting of awards under our share incentive plan) and 152,357,321 Class B ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☒ Yes ☐ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐ Yes ☒ No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "accelerated filer and large accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

†The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒ | International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ | Other ☐

If "other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

☐ Yes ☐ No

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INTRODUCTION

Unless otherwise indicated and except where the context otherwise requires, references in this annual report to:

- "ADSs" refers to our American depositary shares, each of which represents one Class A ordinary share;
- "China" or "PRC" refers to the People's Republic of China, excluding, for the purpose of this annual report only, Hong Kong, Macau and Taiwan;
- "Class A ordinary shares" refers to our Class A ordinary shares of par value US$0.0001 per share;
- "Class B ordinary shares" refers to our Class B ordinary shares of par value US$0.0001 per share;
- "JOYY" refers to JOYY Inc. (Nasdaq: YY), formerly known as YY Inc.;
- "MAUs", or "monthly active users" for any period refers to the sum of users who accessed our platform through our mobile apps, our websites, our PC clients, or YY Client, a PC client offered by JOYY, at least once during such relevant period. The calculations of our MAUs may not reflect the actual number of people who accessed our platform, such as it is possible that some people may use more than one device, or some people may share one device, or some people may access our platform through multiple channels. Average MAUs for any period is calculated by dividing (i) the sum of MAUs for each month during such relevant period, by (ii) the number of months during such relevant period;
- "mobile MAUs" for any period refers to the sum of users who accessed our platform through our mobile apps at least once during such relevant period. The calculations of our mobile MAUs may not reflect the actual number of people who accessed our platform, such as it is possible that some people may use more than one device, or some people may share one device, or some people may access our platform through multiple channels. Average mobile MAUs for any period is calculated by dividing (i) the sum of our mobile MAUs for each month during such relevant period, by (ii) the number of months during such relevant period;
- "monthly active broadcasters" for any period refers to the sum of broadcaster accounts that live broadcasted on our platform at least once during such relevant period. Average monthly active broadcasters for any period is calculated by dividing (i) the sum of our monthly active broadcasters for each month during such relevant period, by (ii) the number of months during such relevant period;

- "paying users" for any period refers to the sum of user accounts that made payments for various products and services on our platform at least once during such relevant period. A paying user is not necessarily a unique user, however, as a unique user may set up multiple paying user accounts on our platform;
- "RMB" and "Renminbi" refer to the legal currency of China;
- "shares" or "ordinary shares" refers to our Class A and Class B ordinary shares, par value $0.0001 per share;
- "Tencent" refers to Tencent Holdings Limited;
- "US$," "U.S. dollars," "$," and "dollars" refer to the legal currency of the United States; and
- "we," "us," "our company," "our" and "Huya" refer to HUYA Inc., a Cayman Islands company, and its subsidiaries, and, in the context of describing our operations and combined and consolidated financial information, also include its variable interest entity and its subsidiaries in the PRC.

We present our financial results in RMB. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. This annual report contains translations of certain foreign currency amounts into U.S. dollars for the convenience of the reader. Unless otherwise stated, all translations of Renminbi into U.S. dollars were made at the rate at RMB6.9618 to US$1.00, the exchange rate as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System in effect as of December 31, 2019.

FORWARD-LOOKING INFORMATION

This annual report contains forward-looking statements that involve risks and uncertainties. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigations Reform Act of 1995.

You can identify these forward-looking statements by words or phrases such as "may," "will," "expect," "anticipate," "aim," "estimate," "intend," "plan," "believe," "likely to" or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to, statements about:

- our goals and strategies;
- our future business development, financial conditions and results of operations;
- the expected growth of the live streaming market in China;
- our expectations regarding demand for and market acceptance of our products and services;
- our ability to retain and increase the number of users, broadcasters, talent agencies and advertisers, and expand our product and service offerings;
- competition in our industry;
- general economic and business condition in China and elsewhere;
- relevant government policies and regulations relating to our industry; and
- assumptions underlying or related to any of the foregoing.

You should read this annual report and the documents that we refer to in this annual report and have filed as exhibits to this annual report completely and with the understanding that our actual future results may be materially different from what we expect. Other sections of this annual report discuss factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

You should not rely upon forward-looking statements as predictions of future events. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

Selected Consolidated Financial Data

The following selected consolidated statements of comprehensive (loss) income for the years ended December 31, 2017, 2018 and 2019, selected consolidated balance sheet data as of December 31, 2018 and 2019, selected consolidated cash flows data for the years ended December 31, 2017, 2018 and 2019 have been derived from our audited consolidated financial statements included in this annual report beginning on page F-1. Our selected consolidated statements of comprehensive loss for the years ended December 31, 2016, selected consolidated balance sheet data as of December 31, 2016 and 2017 and selected consolidated cash flows data for the year ended December 31, 2016 have been derived from our audited consolidated financial statements not included in this annual report. We have not included financial information for the year ended December 31, 2015, as such information cannot be provided on a stand-alone and U.S. GAAP basis without unreasonable effort or expense. Our historical results for any period are not necessarily indicative of results to be expected for any future period. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below.

	For the year ended December 31,				
	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	US$
	(in thousands, except for share, ADS, per share and per ADS data)				
Selected Consolidated Statements of Comprehensive Loss:					
Net revenues:					
Live streaming	791,978	2,069,536	4,442,845	7,976,214	1,145,711
Advertising and others	4,926	115,280	220,595	398,287	57,210
Total net revenues	796,904	2,184,816	4,663,440	8,374,501	1,202,921
Cost of revenues[1]	(1,094,644)	(1,929,864)	(3,933,647)	(6,892,579)	(990,057)
Gross (loss) profit	(297,740)	254,952	729,793	1,481,922	212,864
Operating expenses:					
Research and development expenses[1]	(188,334)	(170,160)	(265,152)	(508,714)	(73,072)
Sales and marketing expenses[1]	(68,746)	(87,292)	(189,207)	(438,396)	(62,972)
General and administrative expenses[1]	(71,325)	(101,995)	(287,710)	(352,824)	(50,680)
Total operating expenses	(328,405)	(359,447)	(742,069)	(1,299,934)	(186,724)
Other income	—	9,629	38,938	79,390	11,404
Operating (loss) income	(626,145)	(94,866)	26,662	261,378	37,544
Interest and short-term investments income	518	14,049	156,549	304,491	43,737
Fair value loss on derivative liabilities	—	—	(2,285,223)	—	—
Foreign currency exchange gains, net	—	—	51	1,157	166
(Loss) income before income tax benefits (expenses)	(625,627)	(80,817)	(2,101,961)	567,026	81,447
Income tax benefits (expenses)	—	—	50,943	(96,078)	(13,801)
(Loss) income before share of (loss) income in equity method investments, net of income taxes	(625,627)	(80,817)	(2,051,018)	470,948	67,646
Share of (loss) income in equity method investments, net of income taxes	—	(151)	113,329	(2,775)	(399)
Net (loss) income attributable to HUYA Inc.	(625,627)	(80,968)	(1,937,689)	468,173	67,247
Accretion to preferred shares redemption value	—	(19,842)	(71,628)	—	—
Deemed dividend to series A preferred shareholders	—	—	(496,995)	—	—
Net (loss) income attributable to ordinary shareholders	(625,627)	(100,810)	(2,506,312)	468,173	67,247
Net (loss) income	(625,627)	(80,968)	(1,937,689)	468,173	67,247
Foreign currency translation adjustments, net of nil tax	—	308	366,259	157,568	22,633
Total comprehensive (loss) income attributable to HUYA Inc.	(625,627)	(80,660)	(1,571,430)	625,741	89,880
Net (loss) income per ADS[2]					
Basic	(6.26)	(1.01)	(15.02)	2.18	0.31
Diluted	(6.26)	(1.01)	(15.02)	2.02	0.29
Weighted average number of ADSs used in calculating net (loss) income per ADS					
Basic	100,000,000	100,000,000	166,828,435	214,811,862	214,811,862
Diluted	100,000,000	100,000,000	166,828,435	232,024,961	232,024,961
Net (loss) income per ordinary share					

Basic	(6.26)	(1.01)	(15.02)	2.18	0.31
Diluted	(6.26)	(1.01)	(15.02)	2.02	0.29
Weighted average number of ordinary shares used in calculating net (loss) income per ordinary share					
Basic	100,000,000	100,000,000	166,828,435	214,811,862	214,811,862
Diluted	100,000,000	100,000,000	166,828,435	232,024,961	232,024,961

Notes:

(1) Share-based compensation expenses were allocated in cost of revenues and operating expenses as follows:

	For the year ended December 31,				
	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	US$
	(in thousands)				
Cost of revenues	5,677	2,877	10,472	31,593	4,538
Research and development expenses	19,538	9,174	30,643	86,296	12,396
Sales and marketing expenses	326	791	1,832	5,919	850
General and administrative expenses	26,557	27,266	183,748	157,936	22,686

(2) Each ADS represents one Class A ordinary share

The following table presents our selected consolidated balance sheet data as of the dates indicated.

	As of December 31,				
	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	US$
	(in thousands, except for share and per share data)				
Selected Consolidated Balance Sheet Data:					
Cash and cash equivalents	6,187	442,532	709,019	1,113,193	159,900
Restricted cash	—	—	—	1,392	200
Short-term deposits	95,000	593,241	4,983,825	6,743,445	968,635
Short-term investments	—	—	300,162	2,219,531	318,816
Total current assets	156,101	1,250,307	6,595,187	10,591,820	1,521,420
Investments	—	10,299	219,827	379,424	54,501
Total assets	167,234	1,300,541	7,106,187	11,366,550	1,632,703
Total current liabilities	319,928	685,650	1,380,446	2,446,677	351,444
Total liabilities	331,621	730,674	1,461,180	2,681,700	385,203
Total mezzanine equity	—	509,668	—	—	—
Class A ordinary shares (US$0.0001 par value; nil, 249,957,163, 750,000,000 and 750,000,000 shares authorized, nil, 992,456, 44,639,737 and 67,101,314 shares issued and outstanding as of December 31, 2016, 2017, 2018 and 2019, respectively)	—	1	29	44	6
Class B ordinary shares (US$0.0001 par value; nil, 99,007,544, 200,000,000, and 200,000,000 shares authorized, nil, 99,007,544, 159,157,321 and 152,357,321 shares issued and outstanding as of December 31, 2016, 2017, 2018 and 2019, respectively)	—	66	104	100	14
Total shareholders' (deficit) equity	(164,387)	60,199	5,645,007	8,684,850	1,247,500

The following table presents our selected cash flows for the years indicated.

	For the year ended December 31,				
	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	US$
			(in thousands)		
Selected Consolidated Cash Flow Data:					
Net cash (used in) provided by operating activities	(420,451)	242,444	717,461	1,945,414	279,439
Net cash used in investing activities	(96,135)	(559,561)	(4,567,452)	(3,684,971)	(529,314)
Net cash provided by financing activities	522,773	774,448	4,126,861	2,133,651	306,480
Net increase in cash and cash equivalents	6,187	457,331	276,870	394,094	56,605
Cash and cash equivalents at the beginning of the year	—	6,187	442,532	709,019	101,844
Effect of exchange rate changes on cash and cash equivalents	—	(20,986)	(10,383)	11,472	1,651
Cash and cash equivalents at the end of the year	6,187	442,532	709,019	1,114,585	160,100

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Business and Our Industry

If we fail to keep our existing users highly engaged, to acquire new users, or to increase the proportion of paying users, our business, profitability and prospects may be adversely affected.

Our success depends on our ability to maintain and grow our user base and keep our users highly engaged. In order to attract, retain and engage users and remain competitive, we must continue to innovate our products and services, implement new technologies and strategies, offer interesting content, improve features of our platform and stimulate interactions in our community.

A decline in our user base may adversely affect the engagement level of our users and vibrancy of our community, which may in turn reduce our monetization opportunities and have a material and adverse effect on our business, financial condition and results of operations. If we are unable to attract and retain users or convert users into paying users, our revenues may decline and our results of operations and financial condition may suffer.

We cannot assure you that our platform will remain sufficiently popular with users to offset the costs incurred to operate and expand it. It is vital to our operations that we remain sensitive and responsive to evolving user preferences and offer content that attracts our users. We must also keep providing our users with new features and functions to enable superior content viewing and social experience. We will need to continue to develop and improve our platform and to enhance our brand awareness, which may require us to incur substantial costs and expenses. If such increased costs and expenses do not effectively translate into improved user traffic and engagement, our results of operations may be materially and adversely affected.

We may fail to attract and retain talented and popular broadcasters.

The size and engagement level of our user base as well as the quality of the live streaming content offered on our platform are critical to our success and are closely linked to our broadcasters' involvement and performance.

Although we have entered into multi-year cooperation agreements that contain exclusivity clauses with some of the popular broadcasters on our platform, if any of these broadcasters decides to breach the agreement or chooses not to continue the cooperation with us once the term of the agreement expires, the popularity of our platform may decline and the number of our users may decrease, which could materially and adversely affect our results of operations and financial condition.

In addition to our most popular broadcasters, we must continue to attract and retain talented and productive broadcasters in order to maintain and increase our content offerings and ensure the sustainable growth of our game live streaming community. We must identify and acquire potential talented broadcasters and provide them with sufficient resources. We cooperate with talent agencies to recruit, manage, train and support our broadcasters. However, we cannot assure you that we can continue to maintain the same level of attractiveness to our broadcasters and talent agencies.

Broadcasters on our platform, including those who have entered into exclusivity agreements with us, may leave us for other platforms which may offer better services and terms than we do. Furthermore, we may lose broadcasters if the talent agencies that manage them are unable to reach or maintain satisfactory cooperation arrangements with such broadcasters. In addition, if talented and popular broadcasters cease to contribute content to our platform, or their live streams fail to attract users, we may experience a decline in user traffic and user engagement, which may have a material and adverse impact on our results of operations and financial conditions.

We may fail to offer attractive content, in particular popular game content, on our platform.

We offer comprehensive live streaming content with a primary focus on games. Our content library is constantly evolving and growing. Game content has been a key genre of our content offerings since our inception. Our ability to maintain an attractive library of game content largely depends on the variety and availability of popular games in China, which may be affected by various factors, including but not limited to, investments by game developers and publishers, game market conditions and regulatory supervision and approval. If there is a decrease in the number of new games launched or approved for launch in China, or if there is a decrease in the number of users on existing popular games, or if we fail to live stream popular games due to various legal or business restrictions, our operations may be negatively impacted and we may face difficulties in continuously supplying attractive game content.

Among the various types of gaming content on our platform, e-sports tournaments and game events have surged as an important genre to generate our user traffic. If we fail to obtain the broadcasting rights for popular e-sports tournaments and game events, or we fail to attract users through these e-sports tournaments and game events, we may experience decreased users, viewership and user engagement, which may materially and adversely affect our results of operations and financial condition.

In addition, in response to our users' growing interests, we also have expanded our coverage into other entertainment content genres. We actively track viewership growth and community feedback to identify trending content and encourage our broadcasters and talent agencies to create content that caters to users' constantly changing taste. However, if we fail to continue to expand and diversify our content offerings, identify trending and popular genres, or maintain the quality of our content, we may experience decreased viewership and user engagement, which may materially and adversely affect our results of operations and financial conditions.

In addition, we largely rely on our broadcasters and talent agencies to create high-quality and fun live streaming content. We have in place a comprehensive and effective incentive mechanism to encourage broadcasters and talent agencies to supply content that is attractive to our users. Also, talent agencies cooperating with us may guide or influence broadcasters to live streaming content that is well received by our users. However, if we fail to observe the latest trends and timely guide broadcasters and talent agencies accordingly, or fail to attract broadcasters who are capable of creating content based on popular games, or if broadcasters fail to produce content for trending games, our user number may decline and our financial condition and results of operations may be materially and adversely affected.

Moreover, there are currently uncertainties with respect to the interpretation and implementation in practice of the laws and regulations governing online games. Pursuant to the relevant PRC laws and regulations, operators which operate online games without pre-approval by the State Administration of Press, Publication, Radio, Film and Television of the PRC, or the SAPPRFT (the predecessor of the National Radio and Television Administration) or its equivalent authorities will be ordered to stop publishing and operating such games. Between April and November 2018, such pre-approval of domestic online games was suspended. According to public news reports, such suspension may have been due to the institutional restructuring of game approval authorities involving the Ministry of Culture and Tourism and the SAPPRFT. Such suspension caused significant delays in the introduction of new games to the Chinese market. While the game approval procedure was reinstated in December 2018, the number of approved games has decreased compared to the period before the suspension. Additionally, on August 30, 2018, the Ministry of Education, together with seven other authorities in the PRC, including the SAPPRFT, issued a notice implementing a plan to protect the eyesight of teenagers, which, among other things, regulates the number of online games and new releases. If game publishers and operators fail to maintain the normal publication and operation of their online games, or if they fail to obtain or make the necessary approvals and filings of their online games, our operations may be negatively impacted, and we may be subject to penalties for live streaming such games.

We are a relatively young company, and we may not be able to sustain our rapid growth, effectively manage our growth or implement our business strategies.

We have a limited operating history, particularly as a stand-alone company. Our Huya platform was launched in 2014 as a business unit of JOYY. Although we have experienced significant growth since our platform was launched, our historical growth rate may not be indicative of our future performance due to our limited operating history and the rapid evolvement of our business model. We may not be able to achieve similar results or grow at the same rate as we did in the past. As our business and the live streaming service market in China continue to develop, we may adjust our product and service offerings or modify our business model. These adjustments may not achieve expected results and may have a material and adverse impact on our financial conditions and results of operations.

In addition, our rapid growth and expansion have placed, and will continue to place, significant strain on our management and resources. This level of significant growth may not be sustainable or achievable at all in the future. We believe that our continued growth will depend on many factors, including our ability to develop new sources of revenues, diversify monetization methods, attract and retain users and content creators, increase user engagement, continue developing innovative technologies in response to user demand, increase brand awareness, expand into new market segments, and adjust to the rapidly changing regulatory environment in China. We cannot assure you that we will achieve any of the above, and our failure to do so may materially and adversely affect our business and results of operations.

We face competition in several major aspects of our business. If we fail to compete effectively, our business, results of operations and financial condition may be negatively impacted.

We face competition in several major aspects of our business, particularly from companies that provide game live streaming services and other online entertainment services, including companies that our shareholders operate or invest in and companies that our shareholders may operate or invest in in the future. Some of our competitors may have longer operating histories, significantly larger user bases, more established brand names, broader product or service offerings, significantly greater financial, technical and marketing resources than we do or have long-term strategic relationships with game developers or publishers, and in turn may have an advantage in attracting and retaining users, broadcasters, talent agencies, advertisers and other business partners. Our competitors may also compete with us for content such as games, e-sports tournaments and game events; business partners such as broadcasters, talent agencies, and advertisers; skilled personnel such as management, engineers, product and content personnel; and other resources such as user traffic, user time spent online, and investments. Furthermore, if we are involved in disputes with any of our competitors that result in litigations or negative publicity to us, such disputes, regardless of their veracity or outcome, may harm our reputation or brand image and in turn lead to a reduced number of users and advertisers. Any legal proceedings or measures we take in response to such disputes may be expensive, time-consuming and disruptive to our operations and divert our management's attention.

If we are not able to effectively compete in one or more of our business lines, our business, results of operations may be negatively impacted, for example, our overall user base and level of user engagement may decrease, which could reduce the number of our paying users or make us less attractive to broadcasters, talent agencies, advertisers, and other business partners. If we are not able to effectively compete, our financial condition may be negatively impacted, for example, our revenues may decrease, our costs and expenses may increase, and our profits may decrease. We may also be required to devote additional resources to further increase our brand recognition and promote our products and services, and such additional spending may adversely affect our profitability.

If we fail to obtain and maintain the licenses and approvals required under the complex regulatory environment for internet-based businesses in China, our business, financial condition and results of operations may be materially and adversely affected.

The internet industry in China is highly regulated. See "Item 4. Information on the Company—B. Business Overview—Government Regulations—Internet Information Services," "Item 4. Information on the Company—B. Business Overview—Government Regulations—Internet Publication and Cultural Products," "Item 4. Information on the Company—B. Business Overview—Government Regulations—Online Music and Entertainment" and "Item 4. Information on the Company—B. Business Overview—Government Regulations—Online Transmission of Audio-Visual Programs." For example, an internet information service provider shall obtain an operating license, or the ICP License, from the Ministry of Industry and Information Technology, or MIIT, or its local counterparts before engaging in any commercial internet information services. Our PRC variable interest entity, Guangzhou Huya Information Technology Co., Ltd., or Guangzhou Huya, has obtained a valid ICP License for provision of internet information services, a radio and television program production and operating permit, a commercial performance license and an internet culture operation license for music products.

Under the Administrative Provisions for the Internet Audio-Video Program Service, or the Audio-Visual Provisions, promulgated by the State Administration of Radio, Film and Television, or SARFT, and the MIIT, providers of internet audio-visual program services are required to obtain a license for online transmission of audio-visual programs, or the Audio-Visual License, issued by SARFT, or complete certain registration procedures with SARFT. In August 2018, the National Office of Anti-Pornography and Illegal Publication, or the NOAPIP, the MIIT, the Ministry of Public Security, the Ministry of Culture and Tourism, the National Radio and Television Administration and the Cyberspace Administration of China, jointly issued the Notice on Strengthen the Management of Live Streaming Service, which requires internet live streaming providers involving internet audio-visual program live streaming services to obtain the Audio-Visual License and complete certain registration procedures with the local public security authority. According to a notice issued by the Administration of Press, Publication, Radio, Film and Television of the Guangdong Province on September 26, 2016, or Guangdong Province Letter, only live streaming services covering (i) major political, military, economics, social, cultural, sports activities or reality event streaming or (ii) activities such as general social cultural activities or sports events are required to apply for an Audio-Visual License. The Guangdong Province Letter further stated that live streaming platforms offering online shows, online games and online drama performances are not required to obtain an Audio-Visual License. We are advised by our PRC legal counsel, Commerce & Finance Law Offices, that Audio-Visual License is not required for our live streaming business.

Currently, we allow broadcasters to upload their recorded video clips to our platform. We also selectively record and edit live streaming gameplays of certain popular broadcasters and turn them into video clip highlights. Streaming those videos on our platform may be regarded as providing internet audio-video program service. Although we currently hold an Audio-Visual License, this may not be sufficient to meet regulatory requirements given the uncertainties with the interpretation and implementation of existing and future laws and regulations. If our practice of offering video clips is deemed as violating the Audio-Visual Provisions, our ability to expand our business scope may be limited and we may be subject to fines or other regulatory actions by relevant regulators. Moreover, we may be required to obtain additional licenses or approvals for our video clip services if the PRC government adopts more stringent policies or regulations on online video clips offerings. As we further develop and expand our video service offerings, we may need to obtain additional qualifications, permits, approvals or licenses.

As the internet industry in China is still at a relatively early stage of development, new laws and regulations may be adopted from time to time to address new issues that come to the authorities' attention. Considerable uncertainties still exist with respect to the interpretation and implementation of existing and future laws and regulations governing our business activities. We cannot assure you that we will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities' interpretation of these laws and regulations. In addition, we may be required to obtain additional licenses or approvals, and we cannot assure you that we will be able to timely obtain or maintain all of the required licenses or approvals or make all of the necessary filings in the future. If we fail to obtain or maintain any of the required licenses or approvals or make the necessary filings, we may be subject to various penalties, such as confiscation of the net revenues that were generated through the unlicensed internet activities, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

We cooperate with various talent agencies to manage and recruit our broadcasters. If we are not able to maintain our relationship with talent agencies, in particular the platinum talent agencies which possess the capacity to produce a large volume of high-quality content and manage a considerable pool of talent, our operations may be materially and adversely affected.

We cooperate with talent agencies to manage, organize and recruit broadcasters on our platform. As we are an open platform that welcomes qualified broadcasters to register on our websites, cooperation with talent agencies substantially increases our operational efficiency in terms of discovering, supporting and managing broadcasters in a more organized and structured manner, and turning amateur broadcasters into full-time broadcasters.

We share a portion of the revenues generated from the sales of virtual items and other products and services attributed to the broadcasters' live streams with broadcasters and talent agencies who manage these broadcasters. If we cannot balance the interests between us, the broadcasters and the talent agencies and design a revenue-sharing mechanism that is agreeable to both broadcasters and talent agencies, we may not be able to retain or attract broadcasters or talent agencies, or both. In addition, while we have entered into exclusive streaming agreements with certain broadcasters, none of the talent agencies we cooperate with has an exclusive cooperation relationship with us. If other platforms offer better revenue sharing incentive to talent agencies, such talent agencies may choose to devote more of their resources to broadcasters who stream on the other platforms, or they may encourage their broadcasters to use or even enter into an exclusive agreement with other platforms, all of which could materially and adversely affect our business, financial condition and results of operations.

We are subject to risks associated with operating in a rapidly developing industry and a relatively new market.

Many elements of our business are unique, evolving and relatively unproven. Our business and prospects depend on the continuing development of the live streaming industry in China. The market for our services is relatively new and rapidly developing and is subject to significant challenges. Our business relies upon our ability to cultivate and grow an active game live streaming community and to successfully monetize our user base, so as to increase revenues from our live streaming as well as online advertising services. In addition, our continued growth depends, in part, on our ability to respond to constant changes in the internet industry, including rapid technological evolution, continued shifts in customer demands, frequent introductions of new products and services and constant emergence of new industry standards and practices. Developing and integrating new content, services or infrastructure could be expensive and time-consuming, and these efforts may not yield the benefits we expect to achieve at all. We cannot assure you that we will succeed in any of these aspects or that these industries in China will continue to grow as rapidly as they have in the past.

As users are facing a growing number of entertainment options that directly or indirectly compete with online live streaming, live streaming may not maintain or increase its current popularity. Growth of the live streaming industry is affected by numerous factors, such as content quality, user experience, technological innovations, development of internet and internet-based services, regulatory environment, and macroeconomic environment. In addition, since we mainly focus on game live streaming, the growth of the games industry will have an impact on the prospects of our business. If live streaming as a form of entertainment loses its popularity due to changing social trends and consumer preferences, or if the games industry in China does not grow as quickly as expected, our results of operation and financial condition may be materially and adversely affected.

Our business and results of operations may be materially adversely affected by the outbreak of COVID-19.

In late January 2020, in response to intensifying efforts to contain the spread of COVID-19, the Chinese government took a number of actions, which included extending the Chinese New Year holiday, quarantining and treating individuals in China who had COVID-19, asking China residents to remain at home and to avoid gathering in public, and other actions. In March 2020, the World Health Organization declared COVID-19 as a global pandemic. Many countries have implemented drastic measures, including but not limited to travel bans, closing of boarders and military interventions, to help contain the spread of the virus. The accelerated spread of the virus globally has caused extreme volatility in the global financial market, including the repeated triggering of stock market "circuit breakers" in the U.S. and many other countries. The global pandemic also caused significant uncertainty and tensions in international relations, including the relations between China and the U.S. While many of the restrictions on movement within China have been relaxed as of the date of this annual report, there is great uncertainty as to the future progress of the disease. Currently, there is no vaccine or specific anti-viral treatment for COVID-19. Relaxation of restrictions on economic and social life may lead to new cases which may lead to the reimposition of restrictions.

Since the outbreak, a number of major e-sports tournaments and game events have been canceled, delayed, shifted to online-only format or otherwise disrupted. For example, competitions of League of Legends® Pro League Spring 2020 in China were rescheduled and the related marketing plans rearranged. Consequently, our broadcasting and business plans in connection with these tournaments were also disrupted, and we may incur additional managerial, operational and financial resources to make necessary accommodations. In addition, the COVID-19 outbreak may cause closure of our offices and/or those of our partners such as internet cafes or talent agencies, suspension of services such as mourning days, and travel restrictions and limits on access to public venues. We maintain corporate offices in a number of cities in China that have been severely affected by the outbreak, including Guangzhou and Beijing. An economic slowdown in China and globally may decrease the consumption in online entertainment, and our users' spending on our platforms may be decreased. As a result of any of the above developments, our business, financial condition and results of operations for the full fiscal year of 2020 in China and overseas markets may be adversely affected by the COVID-19 outbreak. The full extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain the coronavirus or treat its impact, among others.

Our revenue model for live streaming may not remain effective and we cannot guarantee that our future monetization strategies will be successfully implemented or generate sustainable revenues and profit.

We operate our live streaming platform using a revenue model whereby users can get free access to live streaming of game or other types of content but have the options to purchase our products or services. We have generated, and expect to continue to generate, a substantial majority of our live streaming revenues using this revenue model. In 2017, 2018 and 2019, our live streaming revenues contributed to 94.7%, 95.3% and 95.2% of our total net revenues, respectively. Although our live streaming business has experienced significant growth in recent years, we may not achieve a similar growth rate in the future, as the user demand for this service may change, decrease substantially or dissipate, or we may fail to anticipate and serve user demands effectively.

Although we factor in industry standards and expected user demand in determining how to optimize our monetization effectively, if we fail to properly manage the supply and timing of our products and services and their appropriate prices, our users may be less likely to make purchases from us. In addition, if users' spending habits change and they choose to only access our content for free without additional purchases, we may not be able to continue to successfully implement our revenue model for live streaming, in which case we may have to provide other value-added services or products to monetize our user base. We cannot guarantee that our attempts to monetize our user base and products and services will continue to be successful, profitable or widely accepted, and therefore the future revenue and income potential of our business are difficult to evaluate.

We have a unique community culture that is vital to our success. Our operations may be materially and adversely affected if we fail to maintain our culture within our addressable user communities.

We have cultivated an interactive and vibrant online social community, centered around live game streaming. We provide resources and support to the broadcasters through talent agencies that help train and retain talented broadcasters on our platform, who in turn, attract and retain users. We also ensure a superior user experience by continuously improving user interface and features of our platform and encouraging active interaction between users and broadcasters. We believe that maintaining and promoting such a vibrant community culture is critical to retaining and expanding our user and broadcaster base. We have taken multiple initiatives to preserve our community culture and values. Despite our efforts, we may be unable to maintain our community culture and cease to be the preferred platform for our target users, broadcasters and talent agencies. For example, frictions among our users or broadcasters and inflammatory comments posted by internet trolls may damage our community culture and brand image, which would be detrimental to our business operations.

We generate a portion of our revenues from advertising. If we fail to attract more advertisers to our platform or if advertisers are less willing to advertise with us, our revenues may be adversely affected.

Although we primarily rely on revenues generated from live streaming services, we still generate a small portion of our revenues from advertising. Our revenues from advertising partly depend on the continued development of the online advertising industry in China and advertisers' willingness to allocate budgets to online advertising. In addition, companies that decide to advertise or promote online may utilize more established methods or channels, such as more established Chinese internet portals or search engines, over advertising on our platform. If the online advertising market does not continue to grow, or if we are unable to capture and retain a sufficient share of that market, our ability to increase our current level of advertising revenues and our profitability and prospects may be materially and adversely affected.

Furthermore, our core and long-term priority of optimizing user experience and satisfaction may limit our platform's ability to generate revenues from advertising. For example, in order to avoid interruptions to our users' entertainment experience, we may restrict or limit advertising during streaming. While this decision would adversely affect our operating results in the short term, we believe it enables us to provide a superior user experience on our platform, which will help us expand and maintain our current user base and enhance our monetization potential in the long term. However, this philosophy of putting our users first may also negatively impact our relationships with advertisers or other third parties, and may not result in the long-term benefits that we expect, in which case the success of our business and operating results could be harmed.

We offer advertising services primarily through contracts entered into with advertisers or third-party advertising agencies and by displaying advertisement on our platform or providing advertising integrated in the content offered on our live streaming platform. We cannot assure you that we will be able to attract or retain direct advertisers or advertising agencies. If we fail to retain and enhance our business relationships with these advertisers or third-party advertising agencies, we may suffer from a loss of advertisers and our business and results of operations may be materially and adversely affected. If we fail to retain existing advertisers and advertising agencies or attract new direct advertisers and advertising agencies or any of our current advertising methods or promotional activities becomes less effective, our business, financial condition and results of operations may be adversely affected.

Increases in the revenue sharing fees and content costs on our platform may have an adverse effect on our business, financial condition and results of operations.

We need to continue offering popular and attractive content on our platform to provide our users with engaging and satisfying viewing experiences, and our ability to provide such content is dependent on our ability to attract and retain our broadcasters and talent agencies. We have a revenue sharing arrangement with both our broadcasters and talent agencies under which we share with them a portion of the revenues from the sales of our products and services on our platform. We also pay some popular broadcasters additional fees to sign agreements that contain exclusivity clauses with us. The absolute amounts and revenue percentages that we pay broadcasters and talent agencies may increase. If our competitor platforms offer higher revenue sharing ratios or additional fees with an intent to attract our popular broadcasters, costs to retain our broadcasters may further increase. If we are not able to continue to retain our broadcasters and produce high-quality content on our platform at commercially acceptable costs, our business, financial condition and results of operations would be adversely impacted. Furthermore, as our business and user base further expand, we may have to devote more resources in attracting broadcasters and talent agencies to produce more content that meets the varied interests of a diverse user base, which would increase the costs of contents on our platform.

In addition, we pay game developers or publishers, e-sports tournaments and game events organizers and participants, and other content broadcasting right owners for content and increases in prices for these broadcasting rights would also have an adverse effect on our business, financial condition and results of operations. If fail to procure these content or fail to procure these content at commercially acceptable costs, our business and results of operations may be adversely impacted. If we are unable to generate sufficient revenues that outpace our increased revenue sharing fees and content costs, our business, financial condition and results of operations may be materially and adversely affected.

We have incurred net losses in the past, and we may again incur losses or our profitability may decrease in the future.

While we generated a profit in 2019, we have incurred net losses prior to 2019. We expect that we will continue to incur significant costs and expenses such as research and development expenses and bandwidth costs to support our video functions, and costs and expenses to retain and attract content creators, grow our user base and generally expand our business operations. We may again not be able to generate sufficient revenues to offset such costs and expenses to sustain profitability in the future. In addition, we expect to continue to invest heavily in our operations to maintain our current market position, support anticipated future growth and meet our expanded reporting and compliance obligations as a public company.

Our profitability is also affected by other factors beyond our control. For example, live streaming as a form of entertainment may not continue to retain or increase its viewership levels or popularity. In addition, advertisers may not increase or maintain their spending on live streaming platforms, including our platform. The continued success of our business depends on our ability to identify which services will appeal to our user base and to offer them on commercially acceptable terms. Our profitability also depends in part on our ability to convert users into paying user, attract advertisers and successfully compete in a very competitive market. In addition, factors including regulatory trends, economic environment and monetary policies in China and globally also affect our profitability.

Our results of operations are subject to substantial quarterly and annual fluctuations due to seasonality.

We may experience seasonality in our business, reflecting seasonal fluctuations in online entertainment consumption. As a result, comparing our operating results on a period-to-period basis may not be meaningful. For example, our users, revenues, or profits may be impacted by public holidays, school vacations, e-sports tournaments and game events that we launch from time to time, marketing campaigns and promotional activities that we conduct from time to time, or regulations, rules and guidelines that government authorities pose from time to time.

Overall, the historical seasonality of our business has been relatively mild due to our rapid growth but seasonality may increase in the future. Due to our limited operating history, the seasonal trends that we have experienced in the past may not apply to, or be indicative of, our future operating results. Once our business development has reached a more mature stage, our financial results may reflect seasonal effects owing to the factors mentioned above.

As a result, our operating results in future quarters or years may fall below the expectations of securities analysts and investors. In such event, the trading price of our ADSs would likely be materially and adversely affected.

We have a limited operating history in overseas markets. If we fail to meet the challenges presented by our increasingly globalized operations, our business, financial condition and results of operations may be materially and adversely affected.

We began to expand our business operations overseas in May 2018. Our global expansion strategy might not be successfully executed and may expose us to a number of risks, including but not limited to:

- challenges in formulating effective local sales and marketing strategies targeting internet and mobile users from various jurisdictions and cultures, who have a diverse range of preferences and demands;
- challenges in identifying appropriate local third-party business partners such as game developers and publishers, e-sports tournament and game event organizers, broadcasters and talent agencies, and establishing and maintaining good working relationships with them;
- challenges in recruiting quality local broadcasters to attract and engage local users;
- challenges in effectively managing overseas operations from our headquarters and establishing overseas IT systems and infrastructure;
- challenges in selecting suitable geographical regions for global expansion and the general economic condition of various regions we operate;
- challenges in increasing and diversifying revenues, controlling costs and expenses, and making profits;
- fluctuations in currency exchange rates;
- compliance with applicable foreign laws and regulations, including but not limited to internet content requirements, foreign exchange controls, cash repatriation restrictions, intellectual property protection rules, data privacy requirements, tax regulations and rules; and
- competition situations in various regions we operate.

Our expansion overseas may exert pressure on our operating results and net margins in the near term, and our overseas expansion may not be occurring at the pace as we intended or generate revenues in the amount as we originally expected. Our business, financial condition and results of operations may be materially and adversely affected by these and other risks associated with our overseas expansion.

Our business depends substantially on the continuing efforts of our executive officers, key employees and qualified personnel, and our business operations may be severely disrupted if we lose their services.

Our future success depends substantially on the continued efforts of our executive officers and key employees. If one or more of our executive officers or key employees were unable or unwilling to continue their services with us, we might not be able to replace them easily, in a timely manner, or at all. Since the internet industry is characterized by high demand and intense competition for talents, we cannot assure you that we will be able to attract or retain qualified staff or other highly skilled employees. In addition, as our company is relatively young, our ability to train and integrate new employees into our operations may not meet the growing demands of our business which may materially and adversely affect our ability to grow our business and hence our results of operations.

If any of our executive officers and key employees terminates their services with us, our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected and we may incur additional expenses to recruit, train and retain qualified personnel. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose customers, know-how and key professionals and staff members. Each of our executive officers and key employees has entered into an employment agreement and a non-compete agreement with us. However, as advised by our PRC legal counsel, Commerce & Finance Law Offices, certain provisions under the non-compete agreement may be deemed invalid or unenforceable under PRC laws. If any dispute arises between our executive officers and key employees and us, we cannot assure you that we would be able to enforce these non-compete agreements in China, where these executive officers reside, in light of uncertainties with China's legal system. See "—Risks Related to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us."

We may be held liable for information or content displayed on, retrieved from or linked to our platform, or distributed to our users, and government authorities may impose legal sanctions on us, including, in serious cases, suspending or revoking the licenses needed to operate our platform.

Our interactive live streaming platform enables users and broadcasters to exchange information and engage in various other online activities. We have required broadcasters, but not users, to complete the real-name registration. In August 2018, a notice jointly issued by National Office of Anti-Pornography and Illegal Publication and other five authorities called for the adoption of a real-name registration system for users. However, since there is no ancillary implementation rules announced so far, there still remain considerable uncertainties in the interpretation and enforcement of such notice in actual practice. As of the date of this annual report, we have not been notified by the relevant authorities to require our users to complete real-name registration. As such, we are unable to verify the sources of the information posted by our users. In addition, while we have consistently regulated and monitored the information and content displayed on our platform, because a majority of the communications on our platform is conducted in real time, we are unable to examine the content generated by users and broadcasters before they are posted or streamed. Therefore, it is possible that broadcasters and users may engage in illegal, obscene or incendiary conversations or activities, including publishing of inappropriate or illegal content that may be deemed unlawful under PRC laws and regulations on our platform. If any content on our platform is deemed illegal, obscene or incendiary, or if appropriate licenses and third-party consents have not been obtained, claims may be brought against us for defamation, libel, negligence, copyright, patent or trademark infringement, other unlawful activities or other theories and claims based on the nature and content of the information delivered on or otherwise accessed through our platform. We have occasionally received fines and been required to disgorge any illegal income earned for certain inappropriate content generated by broadcasters on our platform. Despite our efforts to closely monitor the content on our platform and the actions of our broadcasters, we may be subject to similar fines and penalties in the future. In addition, if the PRC authorities find that we have not adequately managed the content on our platform, they may impose other legal sanctions on us, including, in serious cases, suspending or revoking the licenses needed to operate our platform. See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Internet Information Services.” Moreover, the costs of compliance may continue to increase when more content is made available on our platform as a result of our growing user base, which may adversely affect our results of operations. Furthermore, the distribution of inappropriate or illegal content by broadcasters may result in the suspension of broadcasters from our platform, which may materially and adversely impact our content offering and our attractiveness to users, thereby negatively impacting our business operations and financial results. In the event popular broadcasters are suspended from our platform as a result of inappropriate or illegal content, we may not be able to recoup or realize the expected returns on our investments made to engage such broadcasters.

Intensified government regulations, rules or guidelines of the internet industry in China could restrict our ability to maintain or increase the level of user traffic to our platform as well as our ability to tap into other market opportunities, and negatively impact our businesses, results of operations, or financial condition.

The PRC government has promulgated, in recent years, intensified regulations, rules, or guidelines on various aspects of the internet industry in China. For example, the PRC government adopted more stringent policies to monitor the online games industry due to negative public perception of addiction to online games, including policies for the protection of minors. On April 15, 2007, eight PRC government authorities, including the General Administration of Press and Publication, or the GAPP, the Ministry of Education, the Ministry of Public Security and the MIIT, issued a notice requiring all Chinese online game operators to adopt an "anti-fatigue system" in an effort to curb addiction to online games by minors. If these restrictions expand to apply to adult game players in the future, it may lead to a decrease in the number or engagement of game players, which could adversely affect our game live streaming service and have a material effect on our results of operations. Furthermore, as of October 1, 2011, online game players in China are required to register and verify their names and identity card numbers with the National Citizen Identity Information Center, a subordinate public institution of the Ministry of Public Security, before playing an online game. In August 2018, the National Office of Anti-Pornography and Illegal Publication, or the NOAPIP, the MIIT, the Ministry of Public Security, the Ministry of Culture and Tourism, the National Radio and Television Administration and the Cyberspace Administration of China, jointly issued the Notice on Strengthen the Management of Live Streaming Service, which required the real-name registration system for users to be put in place by live streaming service providers. If this real-name registration system leads to a decrease in the number or engagement of game players, our results of operations may be materially and adversely affected. In addition, according to the Administrative Measures for Business Activities of Online Performances, or the Measures, issued by Ministry of Culture and Tourism on December 2, 2016 and took effect on January 1, 2017, online performance shall not use any online game product without content examination and approval number or filing number issued by competent administrative cultural authorities to present or narrate online game skills. Failure to abide by the Measures may result in substantial monetary fines. In cases of serious offense, online platforms may be ordered to cease its business for rectification or even have its Internet Culture Business Permit revoked. See "Item 4. Information on the Company—B. Business Overview—Government Regulations—Anti-fatigue Compliance System and Real-name Registration System."

In addition, as the internet industry in China is still at a relatively early stage of development, new laws and regulations, rules or guidelines may be adopted from time to time to address new issues that come to the authorities' attention. Some new laws, regulations, rules, or guidelines have or may in the future put additional restrictions on our users, broadcasters, content, product or service offerings, and may negatively impact our businesses, results of operations, or financial condition. For example, we are subject to a variety of regulatory restrictions concerning the age limit for broadcasters, as well as restrictions on our products' features. The existing and future regulations rules and guidelines that could affect us are beyond our control, and their potential impact on us is difficult to predict. We may incur substantial financial, operational and managerial costs in response to and in anticipation to the relevant regulatory and policy risks, and we may not be able to effectively predict, estimate or manage those risks in a timely and cost-efficient manner. Furthermore, we may not timely obtain or maintain all the required licenses or approvals or to satisfy all the requirements posed by the authorities in the future. We also cannot assure you that we will be able to obtain the required licenses or approvals or to satisfy all the requirements posed by the authorities if we plan to expand into other internet businesses. If we fail to timely obtain or maintain any of the required licenses or approvals, we may be subject to various penalties, which may disrupt our business operations or derail our business strategy, and materially and adversely affect our business, financial condition and results of operations. See "—If we fail to obtain and maintain the licenses and approvals required under the complex regulatory environment for internet-based businesses in China, our business, financial condition and results of operations may be materially and adversely affected," "Item 4. Information on the Company—B. Business Overview—Government Regulations—Internet Information Services," "Item 4. Information on the Company—B. Business Overview—Government Regulations—Internet Publication and Cultural Products," "Item 4. Information on the Company—B. Business Overview—Government Regulations—Online Music and Entertainment" and "Item 4. Information on the Company—B. Business Overview—Government Regulations—Online Transmission of Audio-Visual Programs."

We may be subject to intellectual property infringement claims or other allegations, which could result in our payment of substantial damages, penalties and fines, removal of relevant content from our platform or seeking license arrangements which may not be available on commercially reasonable terms.

Content posted by our users may expose us to allegations by third parties of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of third-party rights. For example, we facilitate broadcasters to live stream games on our platform, and, in some cases, we may dictate the games that our broadcasters stream. As a result, we could face copyright infringement claims with respect to online games being streamed live, recorded or made accessible, or songs performed live, recorded or made accessible on our platform.

The validity, enforceability and scope of protection of intellectual property rights in internet-related industries, particularly in China, are uncertain and still evolving. As we face increasing competition and as litigation becomes a more common way to resolve disputes in China, we face a higher risk of being the subject of intellectual property infringement claims. Under relevant PRC laws and regulations, online service providers which provide storage space for users to upload works or links to other services or content could be held liable for copyright infringement under various circumstances, including situations where an online service provider knows or should reasonably have known that the relevant content uploaded or linked to on its platform infringes the copyrights of others and the provider realizes economic benefits from such infringement activities. In particular, there have been cases in China in which courts have found online service providers to be liable for the posting of copyrighted content by users which was accessible from and stored on such providers' servers. For example, in August 2018, a game publisher filed a suit against us as a co-defendant, claiming that one of our self-developed mobile games infringed the plaintiff's licensed mobile game. The game publisher seeks RMB20 million in damages and requests us to remove each version of such game from our platform. We believe the claims lack merit and intend to defend ourselves against these claims vigorously. This case is still pending and in its early stage.

To our knowledge, there is currently no settled court practice which provides clear guidance as to whether or to what extent a live streaming platform would be held liable for the unauthorized posting or live performances of copyrighted content by the users. However, a ruling in favor of right owners would increase our legal risks for allowing the broadcasters on our platform to live stream games over which we do not have license or copyright. In that event, our business, results of operations and financial conditions may be materially and adversely affected.

In addition, we may also be subject to allegations that are associated with the broadcasters and talent agencies on our platform. For example, in August 2019, a game live streaming platform filed a suit against a broadcaster and us as co-defendant, claiming that we recruited such broadcaster from their platform by improper means and performed confusing acts. The game live streaming platform sought RMB50 million in damages from the broadcaster and us, and requested us to cease recruiting broadcaster from their platform and performing the confusing acts. We were involved a few other factually similar cases. In April 2020, a local PRC court in charge of one of those cases passed a first-instance judgment in favor of us and in this judgment, the court held that our actions did not constitute unfair competition and rejected all the plaintiff's claims. As of the date of this annual report, such judgment is still subject to an appeal (if any) and all of the other cases are still pending and in their early stage. Although we believe that the claims for these cases are unjustified and commercially motivated, if the final outcome of these proceedings are unfavorable to us, we may suffer certain damage to our financial position and reputation.

Although we have required our users to post only legally compliant and inoffensive materials and have set up screening procedures, our screening procedures may fail to screen out all potentially offensive or non-compliant user-generated content and, even if properly screened, a third party may still find user-generated content posted on our platform offensive and take action against us in connection with such content. In addition, we have entered into revenue-sharing arrangements with some of the popular broadcasters and talent agencies on our platform, and we cannot assure you that PRC courts will not view these broadcasters or talent agencies as our employees or agents, deem us to have control over their activities on our platform and the content they upload or otherwise make available on our platform, determine that we have knowingly uploaded such infringing content on our platform and hold us directly liable for their infringement activities on our platform. We may also face litigations or administrative actions for defamation, negligence or other purported injuries resulting from the content we provide or the nature of our services. Such litigations and administrative actions, with or without merits, may be expensive and time-consuming, resulting in significant diversion of resources and management attention from our business operations, and adversely affect our brand image and reputation. Separately, as our business expands, the cost of carrying out these procedures and obtaining authorization and licenses for the growing content on our platform may increase, which may potentially have material and adverse effects on our results of operations.

Although we have not been subject to claims or lawsuits outside China, we cannot assure you that we will not become subject to intellectual property laws in other jurisdictions, such as the United States, by virtue of our ADSs being listed on the NYSE, the ability of users to access our platform from the United States and other jurisdictions, the performance of songs and other content which are subject to copyright and other intellectual property laws of countries outside China, including the United States, the ownership of our ADSs by investors in the United States and other jurisdictions, or the extraterritorial application of foreign law by foreign courts or otherwise. In addition, as a publicly listed company, we may be exposed to increased risk of litigation.

If an infringement claim brought against us in China, the United States or any other jurisdiction is successful, we may be required to pay substantial statutory penalties or other damages and fines, remove relevant content from our platform or enter into license agreements which may not be available on commercially reasonable terms or at all. Litigation or other claims against us may also subject us to adverse publicity which could harm our reputation and affect our ability to attract and retain broadcasters and talent agencies, which could materially and adversely affect the popularity of our platform and therefore, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our brand image, business, operating results and financial condition may be adversely impacted by user misconduct and misuse of our platform.

Since we do not have full control over what broadcasters live stream on our platform and what users communicate on our platform, our platform may be misused or abused by broadcasters or users. We have an internal control system in place to review and monitor live streams and will shut down any streams that may be illegal or inappropriate. However, we may not be able to identify all such streams and content, or prevent all such content from being posted.

Moreover, as we have limited control over the illegal or inappropriate behavior of our broadcasters and users, to the extent such behavior is associated with our platform, our ability to protect our brand image and reputation may be limited. Our business and public perception of our brand may be materially and adversely affected. In addition, in response to allegations of illegal or inappropriate activities conducted through our platform or any negative media coverage about us, PRC government authorities may intervene and hold us liable for non-compliance with PRC laws and regulations concerning the dissemination of information on the internet or others and subject us to administrative penalties, including confiscation of income and fines, or other sanctions, such as requiring us to restrict or discontinue some of the broadcasters, or features and services provided on our platform. As a result, our business may suffer and our user base, revenues and profitability may be materially and adversely affected, and the price of our ADSs may decline.

If we fail to maintain and enhance our brand or if we incur excessive expenses in this effort, our business, results of operations and prospects may be materially and adversely affected.

We believe that maintaining and enhancing our brand is of significant importance to the success of our business. A well-recognized brand is important to increasing the number of users and the level of engagement of our users and enhancing our attractiveness to advertisers. Since we operate in a highly competitive market, brand maintenance and enhancement directly affect our ability to maintain our market position.

Although we have developed brand partly through word of mouth referrals, as we expand, we may conduct various marketing and brand promotion activities using various methods to continue promoting our brand. We cannot assure you, however, that these activities will be successful or that we will be able to achieve the brand promotion effect we expect.

In addition, any negative publicity in relation to our products, services or operations, regardless of its veracity, could harm our brands and reputation. We have sometimes received, and expect to continue to receive, complaints from users such as complaints regarding the quality of the products and services we offer, minors' use of gaming products and livestreaming services, and broadcasters' misconduct. Negative publicity or public complaints may harm our reputation, and if complaints against us are not addressed to their satisfaction, our reputation and our market position could be significantly harmed, which may materially and adversely affect our business, results of operations and prospects. We may incur significant managerial, financial and operational costs and expenses in dealing with the negative publicity or public complaints.

We rely on key operating metrics, to evaluate the performance of our business, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

We rely on certain operating metrics, such as MAUs, mobile MAUs and paying users, to evaluate the performance of our business. Our operating metrics are calculated using internal company data that have not been independently verified. While these numbers are based on what we believe to be reasonable calculations for the applicable periods of measurement, there are inherent challenges in measuring these metrics across our large user base. For example, the calculations of our MAUs or mobile MAUs may not accurately reflect the actual number of people who accessed our platform, such as it is possible that some people may use more than one device, or some people may share one device, or some people may access our platform through multiple channels.

Our measures of operating metrics may differ from estimates published or adopted by third parties, including but not limited to users, business partners, market research institutions, investors and media, or from similarly titled metrics used by our competitors or other companies in the relevant industries due to differences in methodology and assumptions. If these third parties do not perceive our operating metrics to be accurate representations of operations, or if we discover material inaccuracies in our operating metrics, our brand value and reputation may be materially harmed, and our business and operating results may be negatively impacted. If investors make investment decisions based on operating metrics we disclose are inaccurate, we may also face potential lawsuits or disputes.

Our business is highly dependent on the proper functioning and improvement of our information technology systems and infrastructure. Our business and operating results may be harmed by service disruptions, cybersecurity-related threats or by our failure to timely and effectively scale up and adjust our existing technology and infrastructure.

The popularity of our platform and services and our ability to further monetize user traffic depend on our ability to adapt to rapidly changing technologies as well as our ability to continually innovate in response to evolving consumer demands and expectations and intense market competition. Our ability to provide a superior user experience on our platform depends on the continuous and reliable operation of our IT systems.

We may not be able to procure sufficient bandwidth in a timely manner or on acceptable terms or at all. Failure to do so may significantly impair user experience on our platform and decrease the overall effectiveness of our platform to users, broadcasters, talent agencies and advertisers. Our IT systems and content delivery network, or CDN, are vulnerable to damage or interruption as a result of fires, floods, earthquakes, power losses, telecommunications failures, undetected errors in software, computer viruses, hacking and other attempts to harm our IT systems. We have experienced, and may in the future experience, service disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes and cybersecurity-related threats as follows:

- our technology, system, networks and our users' devices have been subject to, and may continue to be the target of, cyber-attacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in an unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of ours, our employees or sensitive information provided by our users, or otherwise disrupt our, our users' or other third parties' business operations;
- we periodically encounter attempts to create false accounts or use our platform to send targeted and untargeted spam messages to our users, or take other actions on our platform for purposes such as spamming or spreading misinformation, and we may not be able to repel spamming attacks;
- the use of encryption and other security measures intended to protect our systems and confidential data may not provide absolute security, and losses or unauthorized access to or releases of confidential information may still occur;
- our security measures may be breached due to employee error, malfeasance or unauthorized access to sensitive information by our employees, who may be induced by outside third parties, and we may not be able to anticipate any breach of our security or to implement adequate preventative measures; and
- we may be subject to information technology system failures or network disruptions caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or other events or disruptions.

Disruptions, failures, unscheduled service interruptions or a decrease in connection speeds could damage our reputation and cause our users, content providers and advertisers to migrate to our competitors' platforms. If we experience frequent or constant service disruptions, whether caused by failures of our own IT systems or those of third-party service providers, our user experience may be negatively affected, which in turn may have a material and adverse effect on our reputation and business. We may not be successful in minimizing the frequency or duration of service interruptions.

As the number of our users increases and our users generate more content on our platform, we may be required to expand and adjust our technology and infrastructure to continue to reliably store and process content. It may become increasingly difficult to maintain and improve the performance of our platform, particularly during peak usage times, as our services become more complex and user traffic increases.

We use third-party services and technologies in connection with our business, and any disruption to the provision of these services and technologies to us could result in negative publicity and a slowdown in the growth of our users, which could materially and adversely affect our business, financial condition and results of operations.

Our business partially depends on services provided by, and relationships with, various third parties. Some third-party software we use in our operations is currently publicly available, free of charge. If the owner of any such software decides to charge users or no longer makes the software publicly available, we may need to incur significant costs to obtain licensing, find replacement software or develop it on our own. If we are unable to obtain licensing, find or develop replacement software at a reasonable cost, or at all, our business and operations may be adversely affected.

In addition, we process transactions of almost all of our services through third-party online payment systems. If any of these third-party online payment systems suffer from security breaches, users may lose confidence in such payment systems and refrain from purchasing our products and services online, in which case our results of operations would be negatively impacted. See "—The security of operations of, and fees charged by, third-party online payment platforms may have a material adverse effect on our business and results of operations."

We exercise no control over the third parties with whom we have business arrangements. If such third parties increase their prices, fail to provide their services effectively, terminate their service or agreements or discontinue their relationships with us, we could suffer service interruptions, reduced revenues or increased costs, any of which may have a material adverse effect on our business, financial condition and results of operations.

Our operations depend on the performance of the internet infrastructure and fixed telecommunications networks in China, which is in large part maintained by state-owned operators.

Almost all access to the internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. Moreover, we primarily rely on a limited number of telecommunication service providers to provide us with data communications capacity through local telecommunications lines and internet data centers to host our servers. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's internet infrastructure or the fixed telecommunications networks provided by telecommunication service providers. Web traffic in China has experienced significant growth during the past few years. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our platform. We cannot assure you that the internet infrastructure and the fixed telecommunications networks in China will be able to support the demands associated with the continued growth in internet usage. If we cannot increase our capacity to deliver our online services, we may not be able to accommodate the increases in traffic from expanding user base, and the adoption of our services may be hindered, which could adversely impact our business.

In addition, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected. Furthermore, if internet access fees or other charges to internet users increase, some users may be prevented from accessing the mobile internet and thus cause the growth of mobile internet users to decelerate. Such deceleration may adversely affect our ability to continue to expand our user base.

User growth and engagement depend upon effective interoperation with mobile operating systems, networks, mobile devices and standards that we do not control.

We make our services available across a variety of mobile operating systems and devices. We are dependent on the interoperability of our services with popular mobile devices and mobile operating systems that we do not control, such as Android and iOS. Any changes in such mobile operating systems or devices that degrade the functionality of our services or give preferential treatment to competitive services could adversely affect usage of our services. In order to deliver high-quality services, it is important that our services work well across a range of mobile operating systems, networks, mobile devices and standards that we do not control. We may not be successful in developing relationships with key participants in the mobile industry or in developing services that operate effectively with these operating systems, networks, devices and standards. In the event that it is difficult for our users to access and use our services, particularly on their mobile devices, our user growth and user engagement could be harmed, and our business and operating results could be adversely affected.

Spammers and malicious software and applications may affect user experience, which could reduce our ability to attract users and advertisers and materially and adversely affect our business, financial condition and results of operations.

Spammers may use our Huya platform to send spam messages to users, which may affect user experience. As a result, our users may reduce using our products and services or stop using them altogether. In spamming activities, spammers typically create multiple user accounts for the purpose of sending a high volume of repetitive messages. Although we attempt to identify and delete accounts created for spamming purposes, we may not be able to effectively eliminate all spam messages from our platform in a timely fashion. Any spamming activities could have a material and adverse effect on our business, financial condition and results of operations.

In addition, malicious software and applications may interrupt the operations of our mobile apps, websites, or PC clients and pass on such malware to our users which could adversely hinder user experience. Although we have been successfully blocking these attacks in the past, we cannot guarantee that this will always be the case, and in the incident if users experience a malware attack by using our platform, our users may associate the malware with our mobile apps, websites, or PC clients, and our reputation, business, and results of operations would be materially and adversely affected.

The security of operations of, and fees charged by, third-party online payment platforms may have a material adverse effect on our business and results of operations.

Currently, we sell substantially all of our services to our users through third-party online payment systems. In all these online payment transactions, secured transmission of confidential information such as paying users' credit card numbers and personal information over public networks is essential to maintaining consumer confidence.

We do not have control over the security measures of our third-party online payment vendors. Any security breaches of the online payment systems that we use could expose us to litigation and possible liability for failing to secure confidential customer information and could, among other things, damage our reputation and the perceived security of all of the online payment systems that we use. If a well-publicized internet or mobile network security breach were to occur, users may become reluctant to purchase our products and services even if the publicized breach did not involve payment systems or methods used by us. In addition, there may be billing software errors that would damage customer confidence in these online payment systems. If any of the above were to occur and damage our reputation or the perceived security of the online payment systems we use, we may lose paying users and users may be discouraged from purchasing our products and services, which may have a material adverse effect on our business.

In addition, there are currently only a limited number of reputable third-party online payment systems in China. If any of these major payment systems decides to cease to provide services to us, or significantly increase the percentage they charge us for using their payment systems for our products and services, our results of operations may be materially and adversely affected.

Concerns or claims about the collection and use of personal data could damage our reputation and deter current and potential users from using our products and services, which could materially and adversely affect our business, financial condition and results of operations.

Concerns or claims about our practices with regard to the collection, use or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation and operating results. We apply strict management and protection for any information provided by users and, under our privacy policy, without our users' prior consent, we will not provide any of our users' personal information to any unrelated third party. While we strive to comply with our privacy guidelines as well as all applicable data protection laws and regulations, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, and could damage our reputation. User and regulatory attitudes towards privacy are evolving, and future regulatory or user concerns about the extent to which personal information is used or shared with advertisers or others may adversely affect our ability to share certain data with advertisers or others, which may limit certain methods of targeted advertising or our cooperation with other business partners. Concerns about the security of personal data could also lead to a decline in general internet usage, which could lead to lower registered, active or paying user numbers on our platform. For example, if the PRC government authorities require real-name registration system for users of our platform with stricter and higher standards, the growth of our user numbers may slow down and our business, financial condition and results of operations may be adversely affected. See "—Risks Related to Our Corporate Structure—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of the internet industry and companies." A significant reduction in registered, active or paying user numbers could lead to lower revenues, which could have a material and adverse effect on our business, financial condition and results of operations.

Third parties may register trademarks or domain names or purchase internet search engine keywords that are similar to our trademarks, brands or websites, or misappropriate our data and copy our platform, all of which could cause confusion to our users, divert online customers away from our products and services or harm our reputation.

Competitors and other third parties may purchase (i) trademarks that are similar to our trademarks and (ii) keywords that are confusingly similar to our brands or websites in internet search engine advertising programs and in the header and text of the resulting sponsored links or advertisements in order to divert potential customers from us to their websites. Preventing such unauthorized use is inherently difficult. If we are unable to prevent such unauthorized use, competitors and other third parties may continue to drive potential online customers away from our platform to competing, irrelevant or potentially offensive platform, which could harm our reputation and cause us to lose revenue.

From time to time, third parties have misappropriated our data through scraping our platform, robots or other means and aggregated this data on their platforms with data from other companies. In addition, "copycat" platforms or apps have misappropriated data on our platform, implanted Trojan viruses in user PCs to steal user data from our platform and attempted to imitate our brand or the functionality of our platform. When we became aware of such platform, we employed technological and legal measures in an attempt to halt their operations. However, we may not be able to detect all such platforms in a timely manner and, even if we could, technological and legal measures may be insufficient to stop their operations. In those cases, our available remedies may not be adequate to protect us against such platforms. Regardless of whether we can successfully enforce our rights against these platforms, any measures that we may take could require significant financial or other resources from us. Those platforms may also lure away some of our users or advertisers or reduce our market share, causing material and adverse effects to our business operations.

We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.

We regard our trademarks, service marks, patents, domain names, trade secrets, proprietary technologies and similar intellectual property as critical to our success. We rely on trademark and patent law, trade secret protection and confidentiality and license agreements with our employees and others to protect our proprietary rights.

We have invested significant resources to develop our own intellectual property and acquire licenses to use and distribute the intellectual property of others on our platform. Failure to maintain or protect these rights could harm our business. In addition, any unauthorized use of our intellectual property by third parties may adversely affect our current and future revenues and our reputation.

Implementation and enforcement of PRC intellectual property-related laws is still evolving. Accordingly, protection of intellectual property rights in China may not be as effective as in the United States or other developed countries. China may not have as robust or comprehensive of intellectual property protection laws and schemes as those offered in the U.S. In addition, the mechanisms to enforce intellectual property rights in China may be inadequate to protect us, which could harm our business. Furthermore, policing unauthorized use of proprietary technology is difficult and expensive. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, third parties may attempt to copy or otherwise obtain and use our intellectual property or seek court declarations that they do not infringe upon our intellectual property rights. Monitoring unauthorized use of our intellectual property is difficult and costly, and we cannot assure you that the steps we have taken will prevent misappropriation of our intellectual property. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources.

As our patents may expire and may not be extended, our patent applications may not be granted and our patent rights may be contested, circumvented, invalidated or limited in scope, our patent rights may not protect us effectively. In particular, we may not be able to prevent others from developing or exploiting competing technologies, which could have a material and adverse effect on our business operations, financial condition and results of operations.

In China, the validity period of utility model patent rights or design patent rights is ten years and not extendable. Currently, we have 133 registered patents, 763 patent applications pending in China and 18 additional patent applications under the patent cooperation treaty. We also have obtained a royalty-free and exclusive license from Guangzhou Huaduo to use 39 patents, 8 of which are under application. For our pending application, we cannot assure you that we will be granted patents pursuant to our pending applications. Even if our patent applications succeed, it is still uncertain whether these patents will be contested, circumvented or invalidated in the future. In addition, the rights granted under any issued patents may not provide us with sufficient protection or competitive advantages. The claims under any patents that issue from our patent applications may not be broad enough to prevent others from developing technologies that are similar or that achieve results similar to ours. It is also possible that the intellectual property rights of others will bar us from licensing and from exploiting any patents that issue from our pending applications. Numerous U.S. and foreign issued patents and pending patent applications owned by others exist in the fields in which we have developed and are developing our technology. These patents and patent applications might have priority over our patent applications and could subject our patent applications to invalidation. Finally, in addition to those who may claim priority, any of our existing or pending patents may also be challenged by others on the basis that they are otherwise invalid or unenforceable.

Some of our products and services contain open source software, which may pose particular risks to our proprietary software, products and services in a manner that negatively affects our business.

We use open source software in some of our services and will continue to use open source software in the future. There is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide or distribute our services. Additionally, we may face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we developed using such software. These claims could result in litigation and could require us to make our software source code freely available, purchase a costly license or cease offering the implicated products or services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully.

Furthermore, because any software source code we contribute to open source projects is publicly available, our ability to protect our intellectual property rights with respect to such software source code may be limited or lost entirely. As a result, we may be unable to prevent our competitors or others from using such software source code contributed by us.

Our business is sensitive to economic conditions. A severe or prolonged downturn in the global or Chinese economy could materially and adversely affect our business, financial condition and results of operations.

COVID-19 had a severe and negative impact on the Chinese and the global economy starting from the first quarter of 2020. Whether this will lead to a prolonged downturn in the economy is still unknown. The Chinese and global macroeconomic environment is facing numerous challenges. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. The tensions between China and the U.S. and other countries have been intensified especially since COVID-19. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

Future strategic alliances or acquisitions may have a material and adverse effect on our business, reputation and results of operations.

We may enter into strategic alliances, including joint ventures or minority equity investments, with various third parties to further our business purpose from time to time. These alliances could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the third party and increased expenses in establishing new strategic alliances, any of which may materially and adversely affect our business, or our investments may be subject to loss. We may have limited ability to monitor or control the actions of these third parties and, to the extent any of these strategic third parties suffers negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with any such third party.

In addition, when appropriate opportunities arise, we may acquire additional assets, products, technologies or businesses that are complementary to our existing business. In addition to possible shareholders' approval, we may also have to obtain approvals and licenses from relevant government authorities for the acquisitions and to comply with any applicable PRC laws and regulations, which could result in increased delay and costs, and may derail our business strategy if we fail to do so. Furthermore, past and future acquisitions and the subsequent integration of new assets and businesses into our own require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not generate the financial results we expect. Acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. Moreover, the costs of identifying and consummating acquisitions may be significant.

Failure to maintain effective internal control over financial reporting could have a material and adverse effect on the trading price of our ADSs.

We are subject to the reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act, adopted rules requiring every public company to include a report from management on the effectiveness of such company's internal control over financial reporting in its annual report on Form 20-F. In addition, the independent registered public accounting firm must report on the effectiveness of such company's internal control over financial reporting. If we fail to maintain effective internal control over financial reporting, we will not be able to conclude and our independent registered public accounting firm will not be able to report that we have effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act of 2002 in our future annual report on Form 20-F covering the fiscal year in which this failure occurs. Effective internal control over financial reporting is necessary for us to produce reliable financial reports. Any failure to maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could have a material and adverse effect on the trading price of our ADSs. Furthermore, we may need to incur additional costs and use additional management and other resources as our business and operations further expand or in an effort to remediate any significant control deficiencies that may be identified in the future.

We are subject to changing law and regulations regarding regulatory matters, corporate governance and public disclosure that have increased both our costs and the risk of non-compliance.

We are subject to rules and regulations by various governing bodies, including, for example, the SEC, which is charged with the protection of investors and the oversight of companies whose securities are publicly traded, and the various regulatory authorities in China and the Cayman Islands, and to new and evolving regulatory measures under applicable law. Our efforts to comply with new and changing laws and regulations have resulted in and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. Moreover, because these laws, regulations and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. If we fail to address and comply with these regulations and any subsequent changes, we may be subject to penalties and our business may be harmed.

We may need additional capital, and we may be unable to obtain such capital in a timely manner or on acceptable terms, or at all. Furthermore, our future capital needs may require us to sell additional equity or debt securities that may dilute our shareholders or introduce covenants that may restrict our operations or our ability to pay dividends.

To grow our business and remain competitive, we may require additional capital from time to time for our daily operation. Our ability to obtain additional capital is subject to a variety of uncertainties, including:

- our market position and competitiveness in the live streaming service, in particular, game live streaming;
- our future profitability, overall financial condition, results of operations and cash flows;
- general market conditions for capital raising activities by live streaming and other internet companies in China;
- foreign currency restrictions; and
- economic, political and other conditions in China and internationally.

We may be unable to obtain additional capital in a timely manner or on acceptable terms or at all. In addition, our future capital needs and other business reasons could require us to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could dilute our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our shareholders.

We face risks related to natural disasters, health epidemics, and other outbreaks, which could significantly disrupt our operations.

Our business could be adversely affected by the effects of epidemics. In recent years, there have been outbreaks of epidemics in China and globally. Our business operations could be disrupted if one of our employees is suspected of having contracted COVID-19, H1N1 flu, avian flu, Ebola or another epidemic, since it could require our employees to be quarantined and/or our offices to be disinfected. Our results of operations could be adversely affected to the extent that the outbreak has any negative impact on the Chinese and global economy in general and the Chinese and global mobile internet and gaming industries in particular.

We are also vulnerable to natural disasters and other calamities. It is possible that we may be unable to recover certain data in the event of a server failure. We cannot assure you that any backup systems will be adequate to protect us from the effects of fire, floods, typhoons, earthquakes, power loss, telecommunications failures, sabotages, war, riots, terrorist attacks or similar events. Any of the foregoing events may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide services on our platform.

We have no business insurance coverage, so that any uninsured occurrence of business disruption may result in substantial costs to us and the diversion of our resources, which could have an adverse effect on our results of operations and financial condition.

Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies do in more developed economies. We do not have any business liability or disruption insurance to cover our operations. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured occurrence may disrupt our business operations, require us to incur substantial costs and divert our resources, which could have an adverse effect on our results of operations and financial condition.

Risks Related to Our Relationship with Our Major Shareholders

Our major shareholders will control the outcome of shareholder actions in our company.

On April 3, 2020, Linen Investment Limited, a wholly-owned subsidiary of Tencent exercised its option to acquire 16,523,819 Class B ordinary shares for an aggregate purchase price of US$262.6 million in cash from JOYY. As of April 3, 2020, Tencent held 50.9% voting power in us calculated based on our total issued and outstanding shares. Tencent's voting power gives it the power to control over certain actions that require shareholder approval under Cayman Islands law, our memorandum and articles of association and NYSE requirements, including approval of mergers and other business combinations, changes to our memorandum and articles of association, the number of shares available for issuance under any share incentive plans, and the issuance of significant amounts of our ordinary shares in private placements.

Tencent's voting control may cause transactions to occur that might not be beneficial to you as a holder of ADSs and may prevent transactions that would be beneficial to you. For example, Tencent's voting control may prevent a transaction involving a change of control of us, including transactions in which you as a holder of our ADSs might otherwise receive a premium for your securities over the then-current market price. Tencent is not prohibited from selling a controlling interest in us to a third party and may do so without your approval and without providing for a purchase of your ADSs. If Tencent is acquired or otherwise undergoes a change of control, any acquirer or successor will be entitled to exercise the voting control and contractual rights of Tencent, and may do so in a manner that could vary significantly from that of Tencent. In addition, the significant concentration of share ownership may adversely affect the trading price of the ADSs due to investors' perception that conflicts of interest may exist or arise. See "—We may have conflicts of interest with Tencent and, because of Tencent's controlling ownership interest in our company, we may not be able to resolve such conflicts on favorable terms for us."

We may have conflicts of interest with Tencent and, because of Tencent's controlling ownership interest in our company, we may not be able to resolve such conflicts on favorable terms for us.

We may have conflicts of interest with Tencent and, because of Tencent's controlling interest in our company, we may not be able to resolve such conflicts on favorable terms for us. Conflicts of interest may arise between Tencent and us in a number of areas relating to our ongoing relationships. Potential conflicts of interest that we have identified include the following:

- *Agreements with Tencent*. We may enter into agreements with Tencent from time to time. Tencent may use its control over us to prevent us from bringing a legal claim against it in the event of a contractual breach by Tencent, notwithstanding our contractual rights under these agreements.
- *Developing business relationships with Tencent's competitors*. So long as Tencent remains as our controlling shareholder, we may be limited in our ability to do business with its competitors. This may limit our ability to serve the best interests of our company and our other shareholders.

- *Employee recruiting and retention*. Because both Tencent and we are engaged in live streaming and online entertainment businesses in China, we may compete with Tencent in the hiring of new employees and retaining talents.
- *Allocation of business opportunities*. There may arise other business opportunities that both we and Tencent find attractive. If Tencent decides to take up such opportunities itself, we may be prevented from taking advantage of those opportunities.
- *Our directors may have conflicts of interest*. As of the date of this annual report, a majority of our directors were appointed by Tencent. This relationship could create, or appear to create, conflicts of interest when these directors are faced with decisions with potentially different implications for Tencent and us.
- *Sales of shares in our company*. Tencent may decide to sell all or a portion of our shares that it holds to a third party, including our competitors, thereby giving that third party substantial influence over our business and our affairs. Such a sale could be contrary to the interests of our employees or our other shareholders.

Although we are a stand-alone public company, we expect to operate, for as long as Tencent is our controlling shareholder, as an affiliate of Tencent. Tencent may from time to time make strategic decisions that it believes are in the best interests of its business as a whole, including our company. These decisions may be different from the decisions that we would have made on our own. Tencent's decisions with respect to us or our business may be resolved in ways that favor Tencent and therefore Tencent's own shareholders, which may not coincide with the interests of our other shareholders. Although we have an audit committee to review and approve all proposed related party transactions, including any transactions between us and Tencent, we may not be able to resolve any potential conflicts, and even if we do, the resolution may be less favorable to us than if we were dealing with a non-controlling shareholder. Even if both parties seek to do business on an arm-length term, the transaction may not meet the practical requirements of the arm's length standard. Furthermore, if Tencent were to compete with us in the game live streaming services, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our financial information included in this annual report may not be representative of our financial condition and results of operations if we had been operating as a stand-alone company.

Prior to the establishment of HUYA Inc., our live streaming business was carried out by JOYY through a variable interest entity, Guangzhou Huaduo. We completed our carve-out from JOYY in December 2016, and all of our live streaming business was transferred from JOYY to us as part of the carve-out and is now carried out by our PRC subsidiary and variable interest entity. Since we and the variable interest entity of JOYY that operated our live streaming business were under common control of JOYY, our consolidated financial statements include the assets, liabilities, revenues, expenses and cash flows that were directly attributable to our business for all periods presented. In particular, our consolidated balance sheets include those assets and liabilities that are specifically identifiable to our business; and our consolidated statements of comprehensive loss include all costs and expenses related to us, including costs and expenses allocated from JOYY to us. Allocations from JOYY, including amounts allocated to the cost of revenues, sales and marketing expenses, research and development expenses, and general and administrative expenses, were made using a proportional cost allocation method and based on the proportion of the number of users or number of staff in each business line. We made numerous estimates, assumptions and allocations in our historical financial statements because we did not operate as a stand-alone company prior to our carve-out from JOYY in December 2016. Although our management believes that the assumptions underlying our historical financial statements and the above allocations are reasonable, our historical financial statements may not necessarily reflect our results of operations, financial position and cash flows as if we had operated as a stand-alone company during those periods. See “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions” for our arrangements with JOYY. In addition, upon becoming a stand-alone company, we have established our own financial, administrative and other support systems to replace JOYY’s systems, the cost of which may be significantly different from cost allocation with JOYY for the same services. Therefore, you should not view our historical results as indicators of our future performance.

If our collaboration with JOYY is terminated or curtailed, or if we are no longer able to benefit from the support of JOYY, our business may be adversely affected.

JOYY is a leading live streaming social media platform in China, and our game live streaming business has benefited from its experience, resources and influence in the live streaming industry and technological know-how. Although we have entered into a business cooperation agreement with JOYY with respect to our future cooperation and a series of agreements with JOYY with respect to certain parts of our operations, such as premises lease, payment collection and patent license, we cannot assure you that we will continue to receive the same level of support from JOYY as we are no longer consolidated by JOYY. Also, failure to properly implement our business cooperation arrangement with JOYY or to realize the intended benefits we anticipated from our business cooperation with JOYY may adversely affect our business and results of operations.

We are a “controlled company” within the meaning of the NYSE Listed Company Manual and, as a result, may rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

We are a “controlled company” as defined under the NYSE Listed Company Manual because Tencent owns more than 50% of our total voting power. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and have relied on, on certain exemptions from corporate governance rules, including an exemption from the rule that a majority of our board of directors must be independent directors and an exemption from the rule that we have to establish a nominating committee composed entirely of independent directors. We may choose to rely on additional exemptions available to controlled companies in the future, including without limitation appointing non-independent directors to one or more board committees, to the extent permitted by relevant laws and regulations. As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

Risks Related to Our Corporate Structure

If the PRC government finds that the structure we have adopted for our business operations does not comply with PRC laws and regulations, or if these laws or regulations or interpretations of existing laws or regulations change in the future, we could be subject to severe penalties, including the shutting down of our platform and our business operations.

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in internet and other related businesses, including the provision of internet content. Specifically, foreign ownership of an internet content provider may not exceed 50%. We are an exempted company limited by shares incorporated under the laws of the Cayman Islands and Guangzhou Huya Technology Co., Ltd., or Huya Technology, our wholly owned PRC subsidiary, is considered a foreign invested enterprise. To comply with PRC laws and regulations, we conduct our business in China through our variable interest entity, Guangzhou Huya, and its subsidiaries, based on a series of contractual arrangements by and among Huya Technology, Guangzhou Huya and its shareholders. As a result of these contractual arrangements, we exert control over our variable interest entity and its subsidiaries and consolidate or combine their operating results in our financial statements under U.S. GAAP. Our variable interest entity holds the licenses, approvals and key assets that are essential for our business operations.

In addition, in 2009, the GAPP and other government authorities have issued the Notice on Further Strengthening the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games, or Circular 13, which prohibits the foreign investors to invest in online game-operating business in China, including by way of variable interest entity structural similar to the one we adopted. See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulation on Online Games and Foreign Ownership Restrictions.” We are not an online game operating business subject to such prohibition, nor are we aware of any companies that have adopted a corporate structure that is the same as or similar to ours having been penalized or terminated due to such prohibition. However, if the government deems otherwise, and if we, our PRC subsidiary or variable interest entity are found to be in violation of the prohibition under Circular 13, the GAPP, in conjunction with the relevant regulatory authorities in charge, may impose applicable penalties, which in the most serious cases may include suspension or revocation of relevant licenses and registrations.

In the opinion of our PRC legal counsel, Commerce & Finance Law Offices, based on its understanding of the relevant PRC laws and regulations, each of the contracts among our PRC subsidiary, our variable interest entity and its shareholders is valid, binding and enforceable in accordance with its terms. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Thus, we cannot assure you that the PRC government will not take a view contrary to the opinion of our PRC legal counsel. If we are found in violation of any PRC laws or regulations or if the contractual arrangements among Huya Technology, Guangzhou Huya and its shareholders are determined as illegal or invalid by the PRC court, arbitral tribunal or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoke our business and operating licenses;
- levy fines on us;
- confiscate any of our income that they deem to be obtained through illegal operations;
- require us to discontinue or restrict operations;
- restrict our right to collect revenues;
- block our mobile apps, websites, or PC clients;

- require us to restructure the operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- impose additional conditions or requirements with which we may not be able to comply; or
- take other regulatory or enforcement actions against us that could be harmful to our business.

The imposition of any of these penalties may result in a material and adverse effect on our ability to conduct the business. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of our variable interest entity and its subsidiaries or the right to receive their economic benefits, we would no longer be able to consolidate our variable interest entity and its subsidiaries. We do not believe that any penalties imposed or actions taken by the PRC government would result in the liquidation of the Company, Huya Technology, Guangzhou Huya and its subsidiaries.

Uncertainties exist with respect to the interpretation and implementation of the newly enacted PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

On March 15, 2019, the National People's Congress approved the Foreign Investment Law, which came into effect on January 1, 2020 and replaced the trio of original laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

We rely on contractual arrangements with our PRC variable interest entity and its shareholders for the operation of our business, which may not be as effective as direct ownership. If our PRC variable interest entity and its shareholders fail to perform their obligations under these contractual arrangements, we may have to resort to litigation to enforce our rights, which may be time-consuming, unpredictable, expensive and damaging to our operations and reputation.

Because of PRC restrictions on foreign ownership of internet-based businesses in China, we depend on contractual arrangements with our PRC variable interest entity in which we have no ownership interest to conduct our business. These contractual arrangements are intended to provide us with effective control over these entities and allow us to obtain economic benefits from them. See "Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Guangzhou Huya" for more details about these contractual arrangements. However, these contractual arrangements may not be as effective in providing control as direct ownership. For example, our PRC variable interest entity and its shareholders could breach their contractual arrangements with us by, among other things, failing to operate our business in an acceptable manner or taking other actions that are detrimental to our interests. If we were the controlling shareholder of our PRC variable interest entity with direct ownership, we would be able to exercise our rights as shareholders to effect changes to its board of directors, which in turn could implement changes at the management and operational level. However, under the current contractual arrangements, if our PRC variable interest entity or their shareholders fail to perform their obligations under these contractual arrangements, we may have to incur substantial costs to enforce such arrangements, and rely on legal remedies under PRC law, including contract remedies, which may not be sufficient or effective. All of these contractual arrangements are governed by and interpreted in accordance with PRC law. Disputes arising from these contractual arrangements between us and our variable interest entities will be resolved through arbitration in China, although these disputes do not include claims arising under the United States federal securities law and thus do not prevent you from pursuing claims under the United States federal securities law. The legal framework and system in China, particularly those relating to arbitration proceedings, is not as developed as other jurisdictions such as the United States. As a result, significant uncertainties relating to the enforcement of legal rights through arbitration, litigation and other legal proceedings remain in China, which could limit our ability to enforce these contractual arrangements and exert effective control over our variable interest entity. If we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and damage our reputation. See "—Risks Related to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us."

Our existing shareholders have substantial influence over our company and their interests may not be aligned with the interests of our other shareholders, which may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their securities.

As of April 3, 2020, our controlling shareholder Tencent holds 50.9% voting power in us calculated based on our total issued and outstanding shares. In addition, the shareholders of our variable interest entity, Guangzhou Huya, are Guangzhou Huaduo and Guangzhou Qinlv, owning 99.01% and 0.99% of the equity interests in Guangzhou Huya, respectively. Mr. David Xueling Li and Beijing Tuda together hold 99.5% of the equity interest in Guangzhou Huaduo while Mr. Li holds 97.7% of the equity interest in Beijing Tuda. Mr. Rongjie Dong holds 100% equity interest in Guangzhou Qinlv, as of the date of this annual report.

Our controlling shareholder and management group has substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of any contemplated sale of our company and may reduce the price of our ADSs. In addition, our management group could violate their legal duties by diverting business opportunities from us, resulting in our losses of corporate opportunities. These actions may take place even if they are opposed by our other shareholders and therefore adversely affect the value of our shares.

We may lose the ability to use and enjoy assets held by our PRC variable interest entity that are important to the operation of our business if such entity goes bankrupt or become subject to a dissolution or liquidation proceeding.

As part of our contractual arrangements with our PRC variable interest entity, Guangzhou Huya holds certain assets, such as patents for the proprietary technology that are essential to the operations of our platform and important to the operation of our business. If Guangzhou Huya goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If our variable interest entity undergoes a voluntary or involuntary liquidation proceeding, the unrelated third-party creditors may claim rights to some or all of its assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

Our ability to enforce the equity pledge agreements between us and our PRC variable interest entity's shareholders may be subject to limitations based on PRC laws and regulations.

Pursuant to the equity interest pledge agreements between Guangzhou Huya, our variable interest entity, and Huya Technology, our wholly-owned PRC subsidiary, and the shareholders of Guangzhou Huya, each shareholder of Guangzhou Huya agrees to pledge its equity interests in Guangzhou Huya to our subsidiary to secure Guangzhou Huya's performance of its obligations under the relevant contractual arrangements. The equity interest pledges of shareholders of variable interest entity under these equity pledge agreements have been registered with the relevant local branch of the State Administration for Market Regulation, or the SAMR, which was previously known as the State Administration for Industry and Commerce. In addition, in the registration forms of the local branch of SAMR for the pledges over the equity interests under the equity interest pledge agreements, the aggregate amount of registered equity interests pledged to Huya Technology represents 100% of the registered capital of Guangzhou Huya. The equity interest pledge agreements with our VIE's shareholders provide that the pledged equity interest shall constitute continuing security for any and all of the indebtedness, obligations and liabilities under all of the principal service agreements and the scope of pledge shall not be limited by the amount of the registered capital of that variable interest entity. However, it is possible that a PRC court may take the position that the amount listed on the equity pledge registration forms represents the full amount of the collateral that has been registered and perfected. If this is the case, the obligations that are supposed to be secured in the equity interest pledge agreements in excess of the amount listed on the equity pledge registration forms could be determined by the PRC court as unsecured debt, which takes last priority among creditors.

Our contractual arrangements with our PRC variable interest entity may result in adverse tax consequences to us.

As a result of our corporate structure and the contractual arrangements among our PRC subsidiary, our PRC variable interest entity and its shareholders, we are effectively subject to PRC turnover tax on revenues generated by our subsidiaries from our contractual arrangements with our PRC variable interest entity. Such tax generally includes the PRC value-added tax, or the VAT, primarily at a rate of 6% along with related surcharges. The applicable turnover tax is determined by the nature of the transaction generating the revenues subject to taxation. The PRC enterprise income tax law requires every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its affiliates or related parties to the relevant tax authorities. These transactions may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year during which the transactions are conducted. We may be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between us and our PRC variable interest entity were not on an arm's length basis and therefore constitute favorable transfer pricing arrangements. If this occurs, the PRC tax authorities could request that our PRC variable interest entity adjust its taxable income upward for PRC tax purposes. Such a pricing adjustment could adversely affect us by reducing expense deductions recorded by our PRC variable interest entity and thereby increasing its entities' tax liabilities, which could subject our VIE to late payment fees and other penalties for the underpayment of taxes. Our financial results may be materially and adversely affected if our PRC variable interest entity's tax liabilities increase or if it becomes subject to late payment fees or other penalties.

The shareholders of our PRC variable interest entity may have potential conflicts of interest with us, and if any such conflicts of interest are not resolved in our favor, our business may be materially and adversely affected.

What is in the best interests of our variable interest entity may not be in the best interests of our company. We cannot assure you that when conflicts of interest arise, the nominee shareholders of our variable interest entity will act in the best interests of our company or that conflicts of interests will be resolved in our favor. In addition, the nominee shareholders of our variable interest entity may breach or cause Guangzhou Huya and its respective subsidiaries to breach or refuse to renew the existing contractual arrangements with us. Currently, we do not have existing arrangements to address such potential conflicts of interest; provided that we could, at all times, exercise our option under the exclusive option agreement to cause the nominee shareholders to transfer all of their equity ownership in Guangzhou Huya to a PRC entity or individual designated by us, and this new shareholder of Guangzhou Huya could then appoint a new director of Guangzhou Huya to replace the existing directors. In addition, if such conflicts of interest arise, Huya Technology, our wholly owned PRC subsidiary, could also, in the capacity of attorney-in-fact for the nominee shareholders as provided under the relevant powers of attorney, directly appoint a new director of Guangzhou Huya. We rely on the nominee shareholders to comply with the laws of China, which protect our contractual rights and provide that a director owes a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their position for personal gains. If we cannot resolve any conflicts of interest or disputes between us and the nominee shareholders of our variable interest entity, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

Risks Related to Doing Business in China

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

The PRC legal system is based on written statutes where prior court decisions have limited value as precedents. Our PRC subsidiary, Huya Technology, is a foreign-invested enterprise and is subject to laws and regulations applicable to foreign-invested enterprises as well as various Chinese laws and regulations generally applicable to companies incorporated in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, could materially and adversely affect our business and impede our ability to continue our operations.

Regulation and censorship of information disseminated over the mobile and internet in China may adversely affect our business and subject us to liability for content streamed or posted on our platform.

Internet companies in China are subject to a variety of existing and new rules, regulations, policies, and license and permit requirements. In connection with enforcing these rules, regulations, policies and requirements, relevant government authorities may suspend services by, or revoke licenses of, any internet or mobile content service provider that is deemed to provide illicit content online or on mobile devices, and such activities may be intensified in connection with any ongoing government campaigns to eliminate prohibited content online. In 2016, 2017, 2018 and 2019, the Chinese regulatory authorities initiated the “Clean Up the Internet 2016,” “Clean Up the Internet 2017,” “Clean Up the Internet 2018,” and “Clean Up the Internet 2019” campaigns, respectively, aiming to eliminate pornographic information and content in the Internet information services industry by, among other things, holding liable individuals and corporate entities that facilitate the distribution of pornographic information and content. During the campaigns, relevant government authorities have taken various measures such as shutting down websites, removing links, closing accounts, seizing publications and closing down mobile apps that contain illegal, harmful or obscene information.

In March 2018, the State Administration of Press, Publication, Radio, Film and Television, or the SAPPRFT, issued a notice to further regulate the transmission of internet audio-visual programs. Due to the lack of clarification and detailed implementation rules, it is unclear to us how this notice would be applicable to the content posted on our platform by our users. Given the uncertainty in the interpretation and implementation of this notice, we may be required to subsequently implement further content monitoring measures, which could materially and adversely affect our business, financial condition and results of operations. For further information regarding this notice, see “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations Related to Online Transmission of Audio-Visual Programs.”

We endeavor to eliminate illicit content from our platform. We have made substantial investments in resources to monitor content that users post on our platform and the way in which our users engage with each other through our platform. We use a variety of methods to ensure our platform remains a healthy and positive experience for our users. See "Item 4. Information on the Company—B. Business Overview—Content Screening and Review." In response to the above-mentioned campaigns, we adopted various measures to prevent the dissemination of gambling, pornographic and other illicit information. Although we employ these methods to filter content posted by our users, we cannot be sure that our internal content control efforts will be sufficient to remove all content that may be viewed as indecent or otherwise non-compliant with PRC law and regulations. Government standards and interpretations as to what constitutes illicit online content or behavior are subject to interpretation and may change in a manner that could render our current monitoring efforts insufficient. The Chinese government has wide discretion in regulating online activities and, irrespective of our efforts to control the content on our platform, government campaigns and other actions to reduce illicit content and activities could subject us to negative press or regulatory challenges and sanctions, including fines, suspension or revocation of our licenses to operate in China or a ban on our platform, including closure of one or more parts of or our entire business. Further, our senior management could be held criminally liable if we are deemed to be profiting from illicit content on our platform. Although our business and operations have not been materially and adversely affected by government campaigns or any other regulatory actions in the past, we cannot assure you that our business and operations will be immune from government actions or sanctions in the future. If government actions or sanctions are brought against us, or if there are widespread rumors that government actions or sanctions have been brought against us, our reputation could be harmed, we may lose users and customers, our revenues and results of operation may be materially and adversely affected and the value of our ADSs could be dramatically reduced.

Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business, financial condition and results of operations.

Substantially all of our assets and almost all of our customers are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over the Chinese economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments, monetary policy or changes in tax regulations. The growth rate of the Chinese economy has gradually slowed since 2010, and the impact of COVID-19 on the Chinese economy in 2020 is likely to be severe. Any prolonged slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of the internet industry and companies.

The PRC government extensively regulates the internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violations of applicable laws and regulations. Issues, risks and uncertainties relating to PRC regulation of the internet business include, but are not limited to, the following:

- We only have contractual control over our platform. Guangzhou Huya, our PRC variable interest entity, owns our platform due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, including internet content provision services. If Guangzhou Huya breaches its contractual arrangements with us and no longer remains under our control, this may significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us.
- There are uncertainties relating to the regulation of the internet business in China, including evolving licensing practices and the requirement for real-name registrations and its implementation in actual practice. Permits, licenses or operations at some of our subsidiaries and PRC variable interest entity levels may be subject to challenge, or we may fail to obtain permits or licenses that may be deemed necessary for our operations or we may not be able to obtain or renew certain permits or licenses. See "Risks Related to Our Business and Our Industry—If we fail to obtain and maintain the licenses and approvals required under the complex regulatory environment for internet-based businesses in China, our business, financial condition and results of operations may be materially and adversely affected," "Item 4. Information on the Company—B. Business Overview—Government Regulations—Internet Information Services," "Item 4. Information on the Company—B. Business Overview—Government Regulations—Internet Publication and Cultural Products," "Item 4. Information on the Company—B. Business Overview—Government Regulations—Online Music and Entertainment" and "Item 4. Information on the Company—B. Business Overview—Government Regulations—Online Transmission of Audio-Visual Programs." In addition, if we were required to implement real-name registration system on our platform with stricter and higher standards, we may lose large numbers of registered user accounts for various reasons, because users may no longer maintain multiple accounts and users who dislike giving out their private information may cease to use our products and services altogether.
- The evolving PRC regulatory system for the internet industry may lead to the establishment of new regulatory agencies. For example, in May 2011, the State Council announced the establishment of a new department, the State Internet Information Office (now known as the Cyberspace Administration of China or Office of the Central Cyberspace Affairs Commission). The primary role of this new agency is to facilitate the policy-making and legislative development in this field to direct and coordinate with the relevant departments in connection with online content administration and to deal with cross-ministry regulatory matters in relation to the internet industry. We are unable to determine what policies this new agency or any new agencies to be established in the future may have or how they may interpret existing laws, regulations and policies and how they may affect us. Further, new laws, regulations or policies may be promulgated or announced that will regulate internet activities, including online video and online advertising businesses. If these new laws, regulations or policies are promulgated, additional licenses may be required for our operations. If our operations do not comply with these new regulations after they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business. There are also risks that we may be found to violate the existing or future laws and regulations given the uncertainty and complexity of China's regulation of internet business.

Currently there is no law or regulation specifically governing virtual asset property rights and therefore it is not clear what liabilities, if any, online game operators may have for virtual assets.

While participating on our platform, our users acquire, purchase and accumulate some virtual assets, such as gifts or certain status. Such virtual assets can be important to users and have monetary value and, in some cases, are sold for actual money. In practice, virtual assets can be lost for various reasons, often through unauthorized use of the user account of one user by other users and occasionally through data loss caused by delay of network service, network crash or hacking activities. Other than the General Rules on the Civil Law of the People's Republic of China, which was passed by the National People's Congress on March 15, 2017 and took effect on October 1, 2017, and prescribes that network virtual property will be protected according to the laws and regulations stipulating the protection of such property, the Chinese government has not yet enacted any specific laws regarding virtual property rights. As a result, there is uncertainty as to who the legal owner of virtual assets is, whether and how the ownership of virtual assets is protected by law, and whether an operator of live streaming platform such as us would have any liability, whether in contract, tort or otherwise, to users or other interested parties, for loss of such virtual assets. Based on recent PRC court judgments, the courts have typically held online platform operators liable for losses of virtual assets by platform users, and ordered online platform operators to return the lost virtual items to users or pay damages and losses. In case of a loss of virtual assets, we may be sued by our users and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations.

Advertisements shown on our platform may subject us to penalties and other administrative actions.

Under PRC advertising laws and regulations, we are obligated to monitor the advertising content shown on our platform to ensure that such content is true and accurate and in full compliance with applicable laws and regulations. In addition, where a special government review is required for specific types of advertisements prior to internet posting, such as advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals, we are obligated to confirm that such review has been performed and approval has been obtained. Violation of these laws and regulations may subject us to penalties, including fines, confiscation of our advertising income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting the misleading information. In circumstances involving serious violations by us, PRC governmental authorities may force us to terminate our advertising operations or revoke our licenses.

In addition to the advertisements that were placed by the advertising agencies or advertisers we directly cooperate with, our platform also displays side-bar advertisements placed by broadcasters on their own streaming channels. While we have made significant efforts to ensure that the advertisements shown on our platform are in full compliance with applicable PRC laws and regulations, we cannot assure you that all the content contained in such advertisements or offers is true and accurate as required by the advertising laws and regulations, especially given the uncertainty in the interpretation of these PRC laws and regulations. If we are found to be in violation of applicable PRC advertising laws and regulations, we may be subject to penalties and our reputation may be harmed, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

Under the PRC enterprise income tax law, we may be classified as a PRC "resident enterprise," which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.

Under the PRC enterprise income tax law that became effective on January 1, 2008, an enterprise established outside the PRC with "de facto management bodies" within the PRC is considered a "resident enterprise" for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. On April 22, 2009, the State Administration of Taxation, or the SAT, issued the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprise on the Basis of De Facto Management Bodies, or SAT Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. Further to SAT Circular 82, on July 27, 2011, the SAT issued the Administrative Measures of Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial), or SAT Bulletin 45, which became effective on September 1, 2011 and was amended in June 2015, June 2016 and June 2018, to provide more guidance on the implementation of SAT Circular 82.

According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be considered a PRC tax resident enterprise by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following conditions are met: (a) the senior management and core management departments in charge of its daily operations function have their presence mainly in the PRC; (b) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (c) its major assets, accounting books, company seals, and minutes and files of its board and shareholders' meetings are located or kept in the PRC; and (d) not less than half of the enterprise's directors or senior management with voting rights habitually reside in the PRC. SAT Bulletin 45 further clarifies the resident status determination, post-determination administration as well as competent tax authorities.

Although SAT Circular 82 and SAT Bulletin 45 only apply to offshore incorporated enterprises controlled by PRC enterprises or PRC enterprise group instead of those controlled by PRC individuals or foreigners, Commerce & Finance Law Offices, our legal counsel as to PRC law, has advised us that the determination criteria set forth therein may reflect SAT's general position on how the term "de facto management body" could be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners.

We do not meet all of the conditions above; therefore, we believe that we should not be treated as a "resident enterprise" for PRC tax purposes even if the standards for "de facto management body" prescribed in the SAT Circular 82 are applicable to us. For example, our minutes and files of the resolutions of our board of directors and the resolutions of our shareholders are maintained outside the PRC.

However, it is possible that the PRC tax authorities may take a different view. Commerce & Finance Law Offices, our legal counsel as to PRC law, has advised us that if the PRC tax authorities determine that our Cayman Islands holding company is a PRC resident enterprise for PRC enterprise income tax purposes, our world-wide income could be subject to PRC tax at a rate of 25%, which could reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations.

Although dividends paid by one PRC tax resident to another PRC tax resident should qualify as "tax-exempt income" under the enterprise income tax law, we cannot assure you that dividends by our PRC subsidiary to our Cayman Islands holding company will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax on dividends, and the PRC tax authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes.

Non-PRC resident ADS holders may also be subject to PRC withholding tax on dividends paid by us and PRC tax on gains realized on the sale or other disposition of ADSs or Class A ordinary shares, if such income is sourced from within the PRC. The tax would be imposed at the rate of 10% in the case of non-PRC resident enterprise holders and 20% in the case of non-PRC resident individual holders. In the case of dividends, we would be required to withhold the tax at source. Any PRC tax liability may be reduced under applicable tax treaties or similar arrangements. Although our holding company is incorporated in the Cayman Islands, it remains unclear whether dividends received and gains realized by our non-PRC resident ADS holders will be regarded as income from sources within the PRC if we are classified as a PRC resident enterprise. Any such tax will reduce the returns on your investment in our ADSs.

Finally, we face uncertainties on the reporting and consequences on private equity financing transactions, private share transfers and share exchange involving the transfer of shares in our company by non-resident investors. According to the Notice on Several Issues Concerning Enterprise Income Tax for Indirect Share Transfer by Non-PRC Resident Enterprises, issued by the PRC State Administration of Taxation on February 3, 2015, or SAT Circular 7, an "indirect transfer" of assets of a PRC resident enterprise, including a transfer of equity interests in a non-PRC holding company of a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable properties, if such transaction lacks reasonable commercial purpose and was undertaken for the purpose of reducing, avoiding or deferring PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and tax filing or withholding obligations may be triggered, depending on the nature of the PRC taxable properties being transferred. According to SAT Circular 7, "PRC taxable properties" include assets of a PRC establishment or place of business, real properties in the PRC, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining if there is a "reasonable commercial purpose" of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable properties; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable properties have a real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable properties; and the tax situation of such indirect transfer outside China and its applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment or place of business of a foreign enterprise, the resulting gain is to be included with the annual enterprise filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to PRC real properties or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payer fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the competent tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. Currently, SAT Circular 7 does not apply to the sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing and withholding or tax payment obligations with respect to any internal restructuring, and our PRC subsidiary may be requested to assist in the filing. Any PRC tax imposed on a transfer of our shares not through a public stock exchange, or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in our company.

Implementation of the labor laws and regulations in China may adversely affect our business and result of operations.

Pursuant to the labor contract law that took effect in January 2008, its amendment that took effect in July 2013 and its implementation rules that took effect in September 2008, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. Due to lack of detailed interpretative rules and uniform implementation practices and broad discretion of the local competent authorities, it is uncertain as to how the labor contract law and its implementation rules will affect our current employment policies and practices. Our employment policies and practices may violate the labor contract law or its implementation rules, and we may thus be subject to related penalties, fines or legal fees. Compliance with the labor contract law and its implementation rules may increase our operating expenses, in particular our personnel expenses. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the labor contract law and its implementation rules may also limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations. On October 28, 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law, or the Social Insurance Law, which became effective on July 1, 2011, and was amended on December 29, 2018. According to the Social Insurance Law, employees must participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay the social insurance premiums for such employees.

We expect our labor costs to increase due to the implementation of these laws and regulations. As the interpretation and implementation of these new laws and regulations are still evolving, we cannot assure you that our employment practice will at all times be deemed in full compliance with labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. If we are deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be materially and adversely affected.

Further, labor disputes, work stoppages or slowdowns at our company or any of our third-party service providers could significantly disrupt our daily operation or our expansion plans and have a material adverse effect on our business.

Compliance with the laws or regulations governing virtual currency may result in us having to obtain additional approvals or licenses or change our current business model.

The issuance and use of "virtual currency" in the PRC have been regulated since 2007 in response to the growth of the online games industry in China. On January 25, 2007, the Ministry of Public Security, the Ministry of Culture and Tourism, or MCT (previously known as the Ministry of Culture), the MIIT and the GAPP jointly issued a circular regarding online gambling which has implications for the use of virtual currency. To curtail online games that involve online gambling, as well as address concerns that virtual currency could be used for money laundering or illicit trade, the circular (a) prohibits online game operators from charging commissions in the form of virtual currency in relation to winning or losing of games; (b) requires online game operators to impose limits on use of virtual currency in guessing and betting games; (c) bans the conversion of virtual currency into real currency or property; and (d) prohibits services that enable game players to transfer virtual currency to other players. On June 4, 2009, the MCT and the MOFCOM jointly issued a notice regarding strengthening the administration of online game virtual currency, or the Virtual Currency Notice.

Although we issue different virtual currencies to users on our platform for them to purchase various items to be used on our platform as well in online games, our service does not constitute online game virtual currency transaction services because users cannot transfer or trade these currencies among themselves. However, we cannot assure you that the PRC regulatory authorities will not take a view contrary to ours. If the PRC regulatory authorities deem any transfer or exchange on our platform to be a virtual currency transaction, then in addition to being deemed to be engaging in the issuance of virtual currency, we may also be deemed to be providing transaction platform services that enable the trading of such virtual currency. Simultaneously engaging in both of these activities is prohibited under the Virtual Currency Notice. In that event, we may be required to cease either our virtual currency issuance activities or such deemed "transaction service" activities and may be subject to certain penalties, including mandatory corrective measures and fines. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

China's M&A Rules and certain other PRC regulations establish complex procedures for certain acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, and other recently adopted regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the National People's Congress effective 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds (i.e., during the previous fiscal year, (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within China, or (ii) the total turnover within China of all the operators participating in the concentration exceeded RMB2 billion, and at least two of these operators each had a turnover of more than RMB400 million within China) must be cleared by SAMR before they can be completed. In addition, in 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, also known as Circular 6, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Further, MOFCOM promulgated the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors, effective 2011, to implement Circular 6. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having "national defense and security" concerns and mergers and acquisitions by which foreign investors may acquire the "de facto control" of domestic enterprises with "national security" concerns. Under the foregoing MOFCOM regulations, MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If MOFCOM decides that a specific merger or acquisition is subject to a security review, it will submit it to the Inter-Ministerial Panel, an authority established under Circular 6 led by the National Development and Reform Commission, and MOFCOM under the leadership of the State Council, to carry out security review. The regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. There is no explicit provision or official interpretation stating that the merging or acquisition of a company engaged in the internet content or mobile games business requires security review, and there is no requirement that acquisitions completed prior to the promulgation of the Security Review Circular are subject to MOFCOM review.

In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions. We believe that it is unlikely that our business would be deemed to be in an industry that raises "national defense and security" or "national security" concerns. However, MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in China, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited.

PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiary's ability to increase their registered capital or distribute profits to us or otherwise expose us to liability and penalties under PRC law.

The SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 and amended on December 30, 2019 by the SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015.

If our shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches, our PRC subsidiary may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiary. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions. We may not at all times be fully aware or informed of the identities of all our shareholders or beneficial owners that are required to make such registrations, and we cannot compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using offshore assets, including the proceeds of our initial public offering, to make additional capital contributions or loans to our PRC subsidiary.

We are an offshore holding company conducting our operations in China through our PRC subsidiary, variable interest entity and its subsidiaries. We may make loans to our PRC subsidiary, variable interest entity and its subsidiaries, or we may make additional capital contributions to our PRC subsidiary.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiary, including from the proceeds of our initial public offering, are subject to PRC regulations. For example, none of our loans to a PRC subsidiary can exceed the difference between its total amount of investment and its registered capital approved under relevant PRC laws, and the loans must be registered with the local branch of SAFE. Our capital contributions to our PRC subsidiary must be approved by the MOFCOM or its local counterpart.

On March 30, 2015, SAFE issued the Circular on the Reforming of the Management Method of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 19, which took effect on June 1, 2015 and was partially revised on December 30, 2019. Under SAFE Circular 19, a foreign-invested enterprise, within the scope of business, may choose to convert its registered capital from foreign currency to RMB on a discretionary basis, and the RMB capital so converted can be used for equity investments within PRC, which will be regarded as the reinvestment of foreign-invested enterprise. See "Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulation of Foreign Currency Exchange and Dividend Distribution."

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary registration or obtain the necessary approval on a timely basis, or at all. If we fail to complete the necessary registration or obtain the necessary approval, our ability to make loans or equity contributions to our PRC subsidiary may be negatively affected, which could adversely affect our PRC subsidiary's liquidity and its ability to fund its working capital and expansion projects and meet its obligations and commitments.

Our PRC subsidiary and PRC variable interest entity are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements.

We are a holding company incorporated in the Cayman Islands. We rely on dividends from our PRC subsidiary which in turn relies on consulting and other fees paid by our PRC variable interest entity for our cash and financing requirements, such as the funds necessary to pay dividends and other cash distributions to our shareholders, including holders of our ADSs, and service any debt we may incur. Current PRC regulations permit our PRC subsidiary to pay dividends to us only out of their accumulated after-tax profits upon satisfaction of relevant statutory condition and procedures, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our PRC subsidiary is required to set aside at least 10% of its accumulated profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. As of December 31, 2019, we made appropriations of RMB64.7 million (US$9.3 million) to statutory reserves. Furthermore, if our PRC subsidiary, variable interest entity and its subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us, which may restrict our ability to satisfy our liquidity requirements.

In addition, the EIT Law, and its implementation rules provide that withholding tax rate of 10% will be applicable to dividends payable by Chinese companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC-resident enterprises are incorporated. As of December 31, 2019, the undistributed earnings and reserves of our subsidiaries and consolidated affiliated entities located in the PRC are considered to be indefinitely reinvested, because we do not have any present plan to pay cash dividends on our common shares in the foreseeable future and intends to retain most of our available funds and any future earnings for use in the operation and expansion of our business.

Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. In the meantime, our directors, executive officers and other employees who are PRC citizens or who are non-PRC residents residing in the PRC for a continuous period of not less than one year, subject to limited exceptions, and who have been granted incentive share awards by us, may follow the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, or 2012 SAFE notices, promulgated by the SAFE in 2012. Pursuant to the 2012 SAFE notices, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiaries of such overseas listed company, and complete certain other procedures. In addition, an overseas entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted options are subject to these regulations when our company became an overseas listed company. Failure to complete the SAFE registrations may subject them to fines, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary and limit our PRC subsidiary's ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law. See "Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulation of Foreign Currency Exchange and Dividend Distribution—Stock Option Rules."

The SAT has issued certain circulars concerning employee share options and restricted shares. Under these circulars, our employees working in China who exercise share options or are granted restricted shares will be subject to PRC individual income tax. Our PRC subsidiary has obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC governmental authorities. See "Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulation of Foreign Currency Exchange and Dividend Distribution—Stock Option Rules."

Fluctuations in exchange rates could have a material adverse effect on our results of operations and the value of your investment.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. The value of Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

Any significant appreciation or depreciation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, to the extent that we need to convert U.S. dollars we receive into Renminbi to pay our operating expenses, appreciation of Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, a significant depreciation of Renminbi against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.

The PRC government imposes control on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE or banks designated by SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiary is able to pay dividends in foreign currencies to us without prior approval from SAFE. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

If the custodians or authorized users of controlling non-tangible assets of our company, including our corporate chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations could be materially and adversely affected.

Under PRC law, legal documents for corporate transactions are executed using the chops or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant branch of the Administration of Industry and Commerce.

Although we usually utilize chops to enter into contracts, the designated legal representatives of each of our PRC subsidiary, variable interest entity and its subsidiaries have the apparent authority to enter into contracts on behalf of such entities without chops and bind such entities. All designated legal representatives of our PRC subsidiary, variable interest entity and its subsidiaries are members of our senior management team who have signed employment agreements with us or our PRC subsidiary, variable interest entity and its subsidiaries under which they agree to abide by various duties they owe to us. In order to maintain the physical security of our chops and chops of our PRC entities, we generally store these items in secured locations accessible only by the authorized personnel in the legal or finance department of each of our subsidiaries and variable interest entity (including its subsidiaries). Although we monitor such authorized personnel, there is no assurance such procedures will prevent all instances of abuse or negligence. Accordingly, if any of our authorized personnel misuse or misappropriate our corporate chops or seals, we could encounter difficulties in maintaining control over the relevant entities and experience significant disruption to our operations. If a designated legal representative obtains control of the chops in an effort to obtain control over any of our PRC subsidiary, variable interest entity or its subsidiaries, we or our PRC subsidiary, variable interest entity and its subsidiaries would need to pass a new shareholder or board resolution to designate a new legal representative and we would need to take legal action to seek the return of the chops, apply for new chops with the relevant authorities, or otherwise seek legal redress for the violation of the representative's fiduciary duties to us, which could involve significant time and resources and divert management attention away from our regular business. In addition, the affected entity may not be able to recover corporate assets that are sold or transferred out of our control in the event of such a misappropriation if a transferee relies on the apparent authority of the representative and acts in good faith.

Our leased property interest may be defective and our right to lease the properties affected by such defects challenged, which could cause significant disruption to our business.

Under PRC laws, all lease agreements are required to be registered with the local housing authorities. We presently lease three premises in China, and the landlords of these premises have not completed the registration of their ownership rights or the registration of our leases with the relevant authorities. Failure to complete these required registrations may expose our landlords, lessors and us to potential monetary fines. If these registrations are not obtained in a timely manner or at all, we may be subject to monetary fines or may have to relocate our offices and incur the associated losses.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our documents filed with the US Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and a firm registered with the US Public Company Accounting Oversight Board (United States), or the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Because our auditors are located in the Peoples' Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB. On May 24, 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission, or the CSRC, and the Ministry of Finance which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in the United States and China. PCAOB continues to be in discussions with the CSRC and the Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges. On December 7, 2018 and February 19, 2020, the SEC and the PCAOB issued two joint statements highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statements reflect a heightened interest in an issue that has vexed U.S. regulators in recent years, and expect U.S. audit firms to bring appropriate increased attention and resources to their internal and cross-network quality control processes. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem. On April 21, 2020, the SEC and the PCAOB issued another joint statement reiterating the greater risk that disclosures will be insufficient in many emerging markets, including China, compared to those made by U.S. domestic companies. In particular, the statement mentioned that in many emerging markets, including China, there is substantially greater risk that disclosures will be incomplete or misleading and, in the event of investor harm, substantially less access to recourse, in comparison to U.S. domestic companies. In discussing the specific issues related to the greater risk, the statement again highlights the PCAOB's inability to inspect audit work paper and practices of accounting firms in China, with respect to their audit work of U.S. reporting companies. The statement further highlights a number of other risks associated with emerging markets, including without limitation that quality of financial information, requirements and standards vary greatly in emerging markets, the ability of U.S. authorities to bring actions in emerging markets may be limited and shareholders have limited rights and few practical remedies in emerging markets.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China's, in June 2019, a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress that would require the SEC to maintain a list of issuers for which PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act prescribes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. national securities exchanges such as the New York Stock Exchange of issuers included on the SEC's list for three consecutive years. Enactment of this legislation or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of our ADSs could be adversely affected. It is unclear if this proposed legislation would be enacted.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Additional remedial measures could be imposed on certain PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings instituted by the SEC, as a result of which our financial statements may be determined to not be in compliance with the requirements of the Exchange Act, if at all.

In December 2012, the SEC brought administrative proceedings against the PRC-based Big Four accounting firms, including our independent registered public accounting firm, alleging that they had violated U.S. securities laws by failing to provide audit work papers and other documents related to certain other PRC-based companies under investigation by the SEC. On January 22, 2014, an initial administrative law decision was issued, censuring and suspending these accounting firms from practicing before the SEC for a period of six months. The decision was neither final nor legally effective until reviewed and approved by the SEC, and on February 12, 2014, the PRC-based accounting firms appealed to the SEC against this decision. In February 2015, each of the four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement required the firms to follow detailed procedures to seek to provide the SEC with access to such firms' audit documents via the CSRC. If the firms did not follow these procedures or if there is a failure in the process between the SEC and the CSRC, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings. Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. While we cannot predict if the SEC will further challenge the four PRC-based accounting firms' compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if the results of such challenge would result in the SEC imposing penalties such as suspensions.

In the event that the PRC-based Big Four accounting firms become subject to additional legal challenges by the SEC or PCAOB, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding PRC-based, United States-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our Class A ordinary shares from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Risks Related to Our ADSs

The trading price of our ADSs has been volatile and may be volatile regardless of our operating performance.

The trading price of our ADSs has been volatile. The trading price of our ADSs could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, including the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. Furthermore, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies like us. These broad market and industry factors may materially reduce the market price of our ADSs, regardless of our operating performance. In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for factors specific to our own operations, including the following:

- variations in our revenues, earnings, cash flow and data related to our user base or user engagement;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
- announcements of new product and service offerings, solutions and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- detrimental adverse publicity about us, our services or our industry;
- additions or departures of key personnel; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade.

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our results of operations. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

Our dual-class share structure with different voting rights will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

We have a dual-class share structure such that our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. In respect of matters requiring the votes of shareholders, holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share based on our dual-class share structure. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of any Class B ordinary shares by a holder to any person or entity who is not an affiliate of such holder, or upon a change of ultimate beneficial ownership of any Class B ordinary shares to any person or entity who is not an affiliate of the holder of such Class B ordinary shares, such Class B ordinary shares shall be automatically and immediately converted into the equivalent number of Class A ordinary shares.

As of April 3, 2020, Tencent and JOYY, our major shareholders, beneficially owned 53.2% and 44.9% of our issued and outstanding Class B ordinary shares, respectively, which constituted 36.9% and 31.2%, respectively, of our total issued and outstanding share capital, and 50.9% and 43.0%, respectively of the aggregate voting power of our total issued and outstanding share capital due to the disparate voting powers associated with our dual-class share structure. As a result of the dual-class share structure and the concentration of ownership, holders of Class B ordinary shares will have considerable influence over matters such as decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Such holders may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our ADSs. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

The dual-class structure of our ordinary shares may adversely affect the trading market for our ADSs.

S&P Dow Jones and FTSE Russell have recently announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, to exclude companies with multiple classes of shares and companies whose public shareholders hold no more than 5% of total voting power from being added to such indices. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our ordinary shares may prevent the inclusion of our ADSs representing Class A ordinary shares in such indices and may cause shareholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices could result in a less active trading market for our ADSs. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our ADSs.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our ADSs and trading volume could decline.

The trading market for our ADSs will be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade our ADSs, the market price for our ADSs would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price or trading volume for our ADSs to decline.

Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of our ADSs for return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

Substantial future sales or perceived potential sales of our ADSs in the public market could cause the price of our ADSs to decline.

Certain holders of our ordinary shares may cause us to register under the Securities Act the sale of their shares, subject to the applicable lock-up period. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the form of ADSs in the public market could cause the price of our ADSs to decline.

The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct the voting of the underlying Class A ordinary shares which are represented by your ADSs.

As a holder of our ADSs, you will only be able to exercise the voting rights with respect to the underlying Class A ordinary shares representing your ADSs in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depositary. Upon receipt of your voting instructions, the depositary will vote the underlying Class A ordinary shares representing your ADSs in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying Class A ordinary shares representing your ADSs unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. Under our third amended and restated memorandum and articles of association, the minimum notice period required for convening a general meeting is ten days. When a general meeting is convened, you may not receive sufficient advance notice enable you to withdraw the shares underlying your ADSs and become the registered holder of such shares prior to the record date of the general meeting to allow you to vote with respect to any specific matter. In addition, under our memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the shares underlying your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. Where any matter is to be put to a vote at a general meeting, the depositary will use its best endeavors to notify you of the upcoming vote and to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to vote and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

Except in limited circumstances, the depositary for our ADSs will give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, which could adversely affect your interests.

Under the deposit agreement for the ADSs, if you do not timely and properly give voting instructions to the depository as to how to vote the Class A ordinary shares underlying your ADSs, the depositary will give us or our nominee a discretionary proxy to vote the Class A ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have failed to timely provide the depositary with notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- the voting at the meeting is to be made on a show of hands.

The effect of this discretionary proxy is that if you do not timely and properly give voting instructions to the depository as to how to vote the Class A ordinary shares underlying your ADSs at shareholders' meetings, you cannot prevent such Class A ordinary shares underlying your ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

Your rights to pursue claims against the depositary as a holder of ADSs are limited by the terms of the deposit agreement.

Under the deposit agreement, any action or proceeding against or involving the depositary, arising out of or based upon the deposit agreement or the transactions contemplated thereby or by virtue of owning the ADSs may only be instituted in a state or federal court in New York, New York, and you, as a holder of our ADSs, will have irrevocably waived any objection which you may have to the laying of venue of any such proceeding, and irrevocably submitted to the exclusive jurisdiction of such courts in any such action or proceeding. The depositary may, in its sole discretion, require that any dispute or difference arising from the relationship created by the deposit agreement be referred to and finally settled by an arbitration conducted under the terms described in the deposit agreement, although the arbitration provisions do not preclude you from pursuing claims under federal securities laws in federal courts. Also, we may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs after an amendment to the deposit agreement, you agree to be bound by the deposit agreement as amended.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make such rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depositary will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings in the future and may experience dilution in your holdings.

You may not receive dividends or other distributions on our Class A ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on Class A ordinary shares or other deposited securities underlying our ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our Class A ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of our ADSs.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depositary are closed, or at any time if we or the depositary thinks that it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason in accordance with the terms of the deposit agreement. As a result, you may be unable to transfer your ADSs when you wish to.

Certain judgments obtained against us by our shareholders may not be enforceable.

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, a majority of our directors and executive officers reside within China, and most of the assets of these persons are located within China. As a result, it may be difficult or impossible for you to effect service of process within the United States upon these individuals, or to bring an action against us or against these individuals in the United States in the event that you believe your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

Our memorandum and articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our Class A ordinary shares and ADSs.

Our memorandum and articles of association contain certain provisions to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions, including a dual-class structure and a provision that grants authority to our board of directors to establish and issue from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. These provisions could have the effect of depriving our shareholders and ADSs holders of the opportunity to sell their shares or ADSs at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Law (2020 Revision) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England and Wales, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records (save for our memorandum and articles of association) or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our memorandum and articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder resolution or to solicit proxies from other shareholders in connection with a proxy contest.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States.

We have granted, and may continue to grant, share incentive awards, which may result in increased share-based compensation expenses.

We adopted our stock incentive plan, or the 2017 Share Incentive Plan, in July 2017, for purposes of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. We adopted an amended and restated 2017 share incentive plan in March 2018, or the Amended and Restated 2017 Plan. We account for compensation costs for all share options using a fair-value based method and recognize expenses in our consolidated statements of comprehensive loss in accordance with U.S. GAAP. Under the Amended and Restated 2017 Plan, we are authorized to grant options to purchase Class A ordinary shares of our company and restricted share units to receive Class A ordinary shares. The maximum number of Class A ordinary shares which may be issued pursuant to all awards under the Amended and Restated 2017 Plan is 28,394,117. As of April 3, 2020, options to purchase 15,199,661 Class A ordinary shares have been granted and are outstanding, and 6,821,147 restricted share units have been granted and are outstanding. For the fiscal year ended 2019, we recorded share-based compensation of RMB279.7 million (US$40.2 million), related to the Amended and Restated 2017 Plan.

On April 3, 2020, Linen Investment Limited, a wholly-owned subsidiary of Tencent, exercised its option to acquire 16,523,819 Class B ordinary shares from JOYY and became our controlling shareholder. Pursuant to the 2017 Share Incentive Plan and option agreements with grantees, all of the share options shall be deemed vested and exercisable immediately in the event of a change of control, regardless of the vesting schedule. Accordingly, upon the aforementioned share transfer, options to purchase 8,343,527 Class A ordinary shares have been deemed vested and exercisable immediately, and share-based compensation expense of RMB57.7 million has been immediately recognized.

We believe the granting of share incentive awards is of significant importance to our ability to attract and retain employees, and we will continue to grant share incentive awards to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the NYSE. Press releases relating to financial results and material events are furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC is less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the NYSE corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the NYSE corporate governance listing standards.

As an exempted company incorporated in the Cayman Islands that is listed on the NYSE, we are subject to the NYSE corporate governance listing standards. However, NYSE rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NYSE corporate governance listing standards. We follow home country practice and have a two-member audit committee, in lieu of the requirement of NYSE Listed Company Manual Section 303A.07 to have an audit committee with at least three members. We may also rely on other exemptions available to foreign private issuers in the future, and to the extent that we choose to do so in the future, our shareholders may be afforded less protection than they otherwise would under the NYSE corporate governance listing standards applicable to U.S. domestic issuers.

There can be no assurance that we will not be a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year, which could subject United States investors in our ADSs or Class A ordinary shares to significant adverse United States income tax consequences.

We will be a “passive foreign investment company,” or “PFIC,” if, in any particular taxable year, either (a) 75% or more of our gross income for such year consists of certain types of “passive” income or (b) 50% or more of the average quarterly value of our assets (generally as determined on the basis of fair market value a quarterly average) during such year produce or are held for the production of passive income (the “asset test”). Although the law in this regard is unclear, we intend to treat our variable interest entity (including its subsidiaries) as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. Assuming that we are the owner of our variable interest entity (including its subsidiaries) for United States federal income tax purposes, and based upon our current and expected income and assets, we do not believe we were a PFIC for the taxable year ended December 31, 2019, and we do not expect to be a PFIC for the current taxable year or in the foreseeable future.

While we do not expect to become a PFIC, recent fluctuations in the market price of our ADSs increased our risk of becoming a PFIC because the value of our assets for purposes of the asset test may be determined by reference to the market price of our ADSs. The market price of our ADSs may continue to fluctuate considerably; consequently, we cannot assure you of our PFIC status for any taxable year. The determination of whether we will be or become a PFIC will also depend, in part, on the composition of our income and assets. If we determine not to deploy significant amounts of cash for active purposes or if it were determined that we do not own the stock of our variable interest entity for United States federal income tax purposes, our risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

If we are a PFIC in any taxable year, a U.S. holder (as defined in "Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations") may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the ADSs or Class A ordinary shares and on the receipt of distributions on the ADSs or Class A ordinary shares to the extent such gain or distribution is treated as an "excess distribution" under the United States federal income tax rules and such holder may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a U.S. holder holds our ADSs or Class A ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our ADSs or Class A ordinary shares. For more information, see "Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Rules."

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our Huya platform was launched in 2014, as a game live streaming business unit of JOYY. In August 2016, Guangzhou Huya, our variable interest entity, was established. JOYY controlled Guangzhou Huya through a set of contractual arrangements. As of December 31, 2016, JOYY completed the transfer of all assets, including trademarks, domain names, business contracts and tangible assets, relating to our business from JOYY to Guangzhou Huya, or our carve-out from JOYY.

JOYY incorporated Huya Limited in Hong Kong in January 2017 and HUYA Inc. in the Cayman Islands in March 2017 as our holding companies. In April 2017, Huya Limited became a wholly-owned subsidiary of HUYA Inc. In June 2017, Huya Limited established Huya Technology, our wholly owned subsidiary in China. In July 2017, we gained control and became the sole beneficiary of Guangzhou Huya in 2017 through a series of contractual arrangements between Huya Technology, Guangzhou Huya and Guangzhou Huya's shareholders. In May and July 2017, Guangzhou Huya incorporated Guangzhou Yaoguo Information Technology Co., Ltd., or Guangzhou Yaoguo, and Guangzhou Dachafan Entertainment Co., Ltd., or Guangzhou Dachafan, respectively, in China.

In March 2018, we completed our series B financing with Linen Investment Limited, a wholly-owned subsidiary of Tencent, and raised US$461.6 million.

On May 11, 2018, our ADSs commenced trading on the NYSE under the symbol "HUYA." We raised from our initial public offering US$190.1 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us.

In July 2018, as a step to expand our business presence outside China, we incorporate HUYA PTE. LTD. in Singapore as a wholly owned subsidiary of Tiger Information Technology Inc., which is a Cayman Islands company wholly owned by HUYA Inc.

In April 2019, we completed a registered public offering of 18,400,000 ADSs by us and a selling shareholder and we raised from such public offering US$313.8 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us.

On April 3, 2020, Linen Investment Limited, a wholly-owned subsidiary of Tencent exercised its option to acquire 16,523,819 Class B ordinary shares for an aggregate purchase price of US$262.6 million in cash from JOYY. As a result of the closing of the transaction, Tencent became our largest shareholder. We will hold an extraordinary general meeting of shareholders on May 15, 2020 for the Company's shareholders to consider, and if thought fit, approving the fourth amended and restated memorandum and articles of association of the Company.

We are a holding company and we currently conduct our business in China mainly through Huya Technology and our variable interest entity, Guangzhou Huya, and its subsidiaries. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure." We rely principally on dividends and other distributions from Huya Technology and Guangzhou Huya for our cash needs, including the funds necessary to pay dividends to our shareholders or service any debt we may incur. Guangzhou Huya holds an ICP License and other permits that are necessary for operating our business in China.

Our principal executive offices are located at Building A3, E-Park, 280 Hanxi Road, Panyu District, Guangzhou, 511446, the People's Republic of China. Our telephone number at this address is +86 (20) 2290-7888. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is Puglisi & Associates located at 850 Library Avenue, Suite 204, Newark, Delaware 19711.

SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC on www.sec.gov. You can also find information on our website *http://ir.huya.com*. The information contained on our website is not a part of this annual report.

B. Business Overview

We are a leading game live streaming platform in China. Leveraging our advantages as a pioneer and leader in the rapidly growing game live streaming market in China, we have successfully emerged as one of the leading content-centric platforms with powerful content development capabilities. Our commitment to providing strong support and resources to broadcasters and talent agencies allows us to offer high-quality content from diversified sources. Through close cooperation with e-sports tournament and game event organizers , as well as major game developers and publishers, we have developed e-sports live streaming as one of the most popular content genres on our platform. In addition to rich content in game and e-sports genres, we have also expanded our offerings to cover non-game entertainment content, such as talent shows, anime, outdoor activities, live chats, and online theater. Having high-quality original content from numerous sources and in different genres enables us to continuously provide users with superior experience and enhance user stickiness to our platform. Building on our success in China, we have started to expand our operations overseas since May 2018 mainly through Nimo TV, that operates game live streaming primarily in Southeast Asia and Latin America.

We have created an engaged, interactive and immersive community for game enthusiasts of the young generation. With our rich and high-quality game live streaming content, we have become a central hub with top-of-mind brand awareness for game lovers who share common interests to connect and share their passion on our platform. Our users interact with one another with the support of our platform's wide array of innovative and appealing social functions, such as bullet chatting, real-time commenting and gifting. Such real-time interactions on our platform cultivate a strong sense of belonging, which effectively increases our user stickiness, forming a solid user base for the consumption of our other non-game content.

Our open platform also functions as a marketplace for broadcasters and talent agencies to congregate and collaborate with us. We have set up operating standards and incentive mechanisms to encourage healthy competition, good performance and regulatory compliance. The monetization opportunities for broadcasters and talent agencies are linked to their performance, which motivates them to supply high-quality content to our platform. We believe our role as an efficient and transparent marketplace fueled our continuous growth and success.

Our content is dynamic. Beyond the real-time improvisation of broadcasters during live streaming sessions, the real-time interactions between viewers and broadcasters or among viewers create user-generated content, which in turn becomes part of the overall entertainment and social experience offered on our platform. Such content enhances the sense of involvement and makes it more fun to watch live streaming.

Our technology platform is designed for reliability, scalability and flexibility. Leveraging our strong technological capabilities in the fields of big data and artificial intelligence, or AI, live streaming, and infrastructure, we deliver superior user experience and conduct operation in a highly efficient manner.

Our Users

Our user base consists mainly of the young generation, who are generally more open-minded and tech-savvy, with an interest in games and other forms of entertainment. As we have gradually expanded and enriched our content offerings, we have been able to expand our user base. The average MAUs of Huya Live grew to 150.2 million in the fourth quarter of 2019 from 116.6 million in the fourth quarter of 2018; and the average mobile MAUs of Huya Live in the fourth quarter of 2019 reached 61.6 million, compared to 50.7 million in the fourth quarter of 2018.

Users may watch live streams on our platform without registration. However, only registered users can enjoy certain popular interactive social features, such as bullet chatting, messaging, following their favorite broadcasters, and make payments for various services and products on our platform. Furthermore, registered users can purchase our Noble membership to enjoy additional premium status and features.

The real-time interactive features of our platform, coupled with a wide variety of high-quality content, have helped us create a vibrant online community that attracts and retains users. Our bullet chatting, gifting, messaging and following functions encourage users to interact with broadcasters as well as other users which also creates a sense of belonging within the community, thus further enhancing user engagement.

Our Content

We offer comprehensive live streaming content with a primary focus on games. Game live streaming has been a key content offering of our platform since our inception. In response to users' growing interests, we also encourage our broadcasters to create and share other entertainment content, which encompasses talent shows, anime, outdoor activities, live chats, online theatre, and other genres. We have leveraged big data and AI technology to analyze our users' viewing preferences and make more accurate content recommendations. Our content library is constantly evolving and growing and enjoys an integration of user-generated content, professional-user-generated content and professionally-generated content. While broadcasters are the focal points of the live streams, the viewers themselves introduce additional meaning and context to the content when they express themselves to broadcasters or other viewers, thus creating a dynamic content.

Games

Live streaming of game content, such as gameplay, e-sports tournaments and game events, has attracted a large number of users on our platform. Leveraging our close relationship with game developers and publishers as well as popular game broadcasters, e-sports leagues and players, we are able to consistently offer high-quality and engaging game live streams to our users. We actively track viewership growth and community feedback with respect to new game titles to identify trending games and allocate our broadcaster resources accordingly ahead of emerging surge in demand of such game content. As of December 31, 2019, our live streaming content covered over 3,800 games, compared to over 3,300 games as of December 31, 2018. In 2019, our broadcasters had a total of 133.0 million streaming hours of game content on our platform, compared to 97.7 million streaming hours in 2018.

E-sports have been a fast growing content genre on our platform, as e-sports appeal to game enthusiasts due to their competitive nature and exciting viewing experiences. Among the game titles streamed on our platform, League of Legends®, King of Glory, PeaceKeeper Elite and PlayerUnknown's Battlegrounds, all being e- sports games, were the four most watched in terms of total viewing time in 2019. We closely cooperate with e-sports tournament and game event organizers, game developers and game publishers to identify trending e-sports competitions and secure live streaming rights of matches and tournaments favored by our community. For example, in October 2019, we entered into a strategic partnership with the developer of League of Legends® to secure the exclusive broadcasting rights in China for League of Legends Champions Korea from 2020 to 2022. In January 2020, we expanded the partnership and acquired the exclusive broadcasting rights in China for the League of Legends Championship Series and League of Legends European Championship Series for 2020, bringing popular Western e-sports tournaments to Chinese viewers. Securing the exclusive broadcasting rights for these major world-class e-sports tournaments further demonstrates our platform's brand value and influence in China's e-sports industry. We provided live streaming services for over 400 third-party e-sports tournaments and game events in 2019, over some of which we have also obtained exclusive broadcasting rights. We also continued to proactively produce our self-organized e-sports tournaments and game events that further complement the viewing experiences of game enthusiasts. In 2019, we self-organized 120 e-sports tournaments and game events.

Other Entertainment Content

To accommodate our users' diverse interests, we have expanded our coverage to include a wide spectrum of other entertainment content, such as talent shows, anime, outdoor activities, live chats, and online theater. In 2019, our broadcasters had a total of 32.4 million streaming hours of such other entertainment content on our platform, compared to 18.4 million streaming hours in 2018. We will continue to diversify our content offerings to provide a one-stop live streaming entertainment platform for our users in order to enhance their stickiness and deepen their ongoing engagement.

We also continued to offer our own original content produced in-house or in collaboration with quality third-party partners. In 2019, we produced a number of popular shows such as *Real Singer*, a music talent show, *Anime Talent*, an anime voice acting contest, and *Huya Golden College*, an outdoor reality show, which helped us attract new users on a broader scale and increased user engagement.

Our Content Creators

We have established deep cooperation with our broadcasters and talent agencies to deliver high-quality, fun and trendy live streaming content.

Broadcasters

We encourage qualified users to join our community and live stream on our platform. Our large broadcaster base consists of not only qualified professional gamers and artists who showcase their gaming skills and artistic talents, but also qualified amateurs who want to share fun and their life moments. In 2019, we had over 680,000 average monthly active broadcasters on our platform. Most of our broadcasters join us by proactively registering through our websites or apps. We also conduct broadcaster recruitment through talent agencies.

We manage, support and promote our broadcasters based on their respective level of popularity and quality of content. For the most popular broadcasters, we cooperate with them and their talent agencies to develop individualized promotion strategies and help them continue to generate top-quality content. We also utilize our data analytic capability to identify broadcasters that have shown great potential, based on ranking and popularity trends, and devote appropriate resources to them. Leveraging our strong data analytic capability and AI enabled technology, we are able to recommend content generated by promising broadcasters to interested users, thus bringing increasing user traffic and improving their popularity. We are also committed to nurturing and promoting our amateur broadcasters, which we believe is important for the sustainable growth of our broadcaster community and the development of our diversified content. We help those amateur broadcasters improve their content quality as well as their attractiveness on our platform by providing technical support and pairing them with talent agencies if necessary. We also cooperate with broadcasters to offer more high quality video content such as gameplay videos, e-sports videos, and other videos, to cater for the increasing needs of our users.

Our effective management of broadcasters is also reflected in our ability to promptly attract and motivate broadcasters to live stream new popular games. When a new popular game is released, we usually establish a dedicated channel on our platform and are able to quickly attract and motivate many broadcasters to live stream this game title, and thus attracting user audience.

All broadcasters streaming on our platform need to enter into standard broadcaster agreements with us. For certain popular or promising broadcasters, we may also enter into customized cooperation agreements with them to facilitate closer collaboration. These customized cooperation agreements typically have a term ranging from one to five years and generally contain exclusivity clauses that require the contracted broadcasters to live stream exclusively on our platform during the contractual term. Our broadcasters and their talent agencies generally are entitled to share a percentage of the proceeds generated from the sales of products and services attributed to their live streams. To certain popular broadcasters, we also pay additional fees that are mostly associated with specific requirements such as active days, content volume and popularity rankings. We provide guidelines and continuously monitor to ensure the legitimacy of the live streams content of our broadcasters.

Talent Agencies

The scale and vibrancy of our platform and community have also attracted a large number of talent agencies to recruit, manage, train, support and promote our broadcasters. Talent agencies that cooperate with us vary in size, ranging from associations of a couple of broadcasters to professional agency firms managing thousands of popular broadcasters.

We generally manage our broadcasters through cooperation with talent agencies. Talent agencies are involved in every step of the broadcaster development process—from recruitment and live streaming training, to promotion strategies. We provide guidance on content monitoring, compliance and corporate governance training to talent agencies to improve their management efficiency and quality and ensure their healthy development. We also have a series of rules, guidelines and policies in place to regulate and manage talent agencies that cooperate with us. Talent agencies are required to provide ongoing compliance trainings to broadcasters under their management as well as monitor and review relevant streams. Talent agency can join our platform by registering with us online. Certain talent agencies with the capacity to produce a large volume of high-quality content and manage a considerable pool of talent may be recognized as platinum talent agencies upon our thorough assessment of their qualifications and broadcaster portfolios. We provide platinum talent agencies with additional resources to promote and develop their broadcasters. As of December 31, 2019, we had over 2,400 platinum talent agencies that managed over 367,000 broadcasters on our platform, compared to over 1,500 platinum talent agencies that managed over 197,000 broadcasters on our platform as of December 31, 2018.

Our Platform

Our platform includes our mobile apps, websites, and PC clients through which users can access our content anywhere, anytime. Users may also access our content through YY Client, a PC client offered by JOYY. We offer a variety of features, tools and services to our users and broadcasters on our platform. Users primarily access our platform through our "*Huya Live*" mobile app, our website "*www.huya.com*", or our PC clients. Broadcasters primarily live stream through our "*Huya Assistant*" and "*Huya Mobile Game*" mobile apps and our PC clients. Our mobile apps are available for download from Apple app store and various Android app stores.

We also expanded our platform to serve overseas users in 2018. In May 2018, we launched Nimo TV that operates game live streaming primarily in Southeast Asia and Latin America. Users and broadcasters overseas primarily access our platform through our "*Nimo TV*" mobile app or our websites "*www.nimo.tv*".

Features for Users

Through our platform, users can watch live streams and chat with their favorite broadcasters and other users anytime, anywhere. Features of our platform have been carefully designed to create a seamless viewing experience, an interactive environment, and a vibrant culture for our users. The basic features of our platform dedicated to users include watching and following, content exploring and recommendation, bullet chatting and messaging, and purchasing and gifting.

Watching and following. Watching live streams is the main function of our platform. Video resolution and quality of live streams are adjusted automatically based on the users' internet connection quality. When watching a live stream, users may choose to follow a broadcaster through our following feature and receive notification in the future when the broadcaster starts streaming. Users are also able to share links to live streams on other social media platforms.

Content exploring and recommendation. The interfaces of our mobile apps, websites and PC clients are user-friendly and easy to navigate. Leveraging our AI technology and massive user data, we are able to generate a front page with individualized content recommendations matching the interest profile of each returning user. Users may also browse our content genres, or type in key words in the search bar displayed on our mobile apps, websites and PC clients interfaces to look for content that may interest them.

Bullet chatting and messaging. Fun and engaging interactions between our users and broadcasters are the cornerstone of our vibrant user community. Bullet chatting allows users to chat with broadcasters and other users through messages that glide across the screen like bullets while watching live streams. Bullet chats can be seen by all users who watch the same live stream, and therefore can stimulate interaction among users. Users can also communicate with other users or broadcasters through real-time commenting or in a private setting through our messaging feature.

Purchasing and gifting. Users can make purchases on our platform to send virtual gifts to broadcasters, or to enjoy privileges and rights, or to receive other products or services. See "—Monetization—Live Streaming." Purchases could be made conveniently through our mobile apps, websites and PC clients. We cooperate with third-party payment platforms, such as WeChat Pay and AliPay, in handling payments made on our platform. Prior to September 2019, users may also use *Y coin*, a virtual currency issued by JOYY, to purchase products and services on our platform.

Features for Broadcasters

We provide handy tools for our broadcasters to create quality content. We have designed a series of dedicated mobile apps and PC client for our broadcasters, enabling them to live stream anytime, anywhere. The basic broadcaster features of our platform include streaming and uploading, and analytical tools.

Streaming and uploading. Our mobile apps and PC client are compatible with built-in cameras on smart devices and professional high-resolution digital cameras. Broadcasters may live stream in studios with professional equipment, or simply share their life moments with their mobile phones at any location. Our apps and PC client allow broadcasters to transmit multi-media content to our users real-time through our server. Broadcasters can add a variety of visual and audio effects to their live streams at their own choice.

Analytical tools. Our mobile apps and PC client for broadcasters provide certain analytical data, such as demographics of followers and viewers and statistics of viewer numbers, comments and bullet chats. Such analytical data enable our broadcasters to monitor user reactions and feedbacks so as to improve their performance.

Monetization

At present, we monetize our user base mainly through live streaming services and advertising services. Revenues from live streaming services are primarily generated from the sales of products and services that our users purchase on our live streaming platform. We share revenues generated on our platform with broadcasters and talent agencies. Revenues from advertising services are primarily generated from advertisements placed on our live streaming platform. As users continue to explore and enjoy our comprehensive content, we will further expand our monetization channels.

Live Streaming

We generate revenues from paying users of our live streaming platforms. Our users can purchase various products and services offered by us, mainly including consumable virtual items and time-based virtual items, or multiple virtual items sold in bundles. Broadcasters may be entitled to share a percentage of the proceeds generated from the sales of these products and services attributed to their live streams.

Consumable virtual items mainly serve as gifts to broadcasters. Special visual effects, such as thumbs-up, planes, or treasure boxes, on the screen will be generated during live streaming when these gifts are presented to the broadcasters by users. Purchase and use of these virtual items are a new way for users to participate in live streams, which stimulate interactions between broadcasters and users and encourage users to contribute to live streams, rather than merely viewing.

Users may also purchase time-based virtual items from us, such as the membership with the designation of Noble Members for themselves, and premium status for their favorite broadcasters. There are several tiers in our membership program and each tier offers a range of privileges and benefits, such as virtual items exclusively available to members, dedicated customer services specialist and bullet chatting with special colors.

We share revenues generated on our platform with broadcasters and talent agencies.

Advertising Services

We derive part of our revenues from advertising placements on our platform. We offer customized advertising services aimed at targeted demographics.

The most common form of advertising on our platform are display advertisements, which are offered in different placement formats, including (i) background advertisements that appear on the side of a live stream screen, (ii) advertisements placed in various areas of our platform, and (iii) advertisements placed on the launch screen of our mobile apps. We also offer native advertisements through providing monetary incentives to our popular broadcasters in exchange for product placement or game promotion in their live streams. We also utilize our integrated platform to provide event-driven advertising solutions for advertisers such as advertising campaigns during e-sports tournaments and game events. We strive to creatively design tailored advertising campaigns for advertisers without compromising user experience. We focus on content, style, design and interactive features of the advertisements so that they will not be disruptive to our users. Leveraging our strong brand recognition and our premium content and broadcasters, we launched our first advertising distribution platform in August 2019 to further support the fast-growing number of our advertisers and meet their specific needs. The advertising platform is a performance-based system that optimizes advertising distribution processes with precise targeting and customized promotional strategy.

A majority of our advertising revenue is derived from advertisers in the games industry, including game developers, publishers and e-sports organizers. Our brand advertisers also include international and domestic companies that operate across a variety of industries, including electronics, online retail and automobiles. Display advertisements fees are generally determined on the basis of the cost per thousand views or the cost per day.

Others

We also develop and operate certain mobile games jointly with third-party distribution platforms, and game related apps. Our users access those games through our platform and purchase in-game virtual items that enhance their playing experience.

Content Screening and Review

We are committed to complying with the relevant laws and regulations on online content and dedicated to the protection of third-party copyrights. We have invested significant resources in developing advanced content monitoring and copyright protection technologies, policies and procedures.

We maintain multiple layers of content management and review procedures to monitor live streaming content on our platform to ensure that we are able to promptly identify content that may be deemed to be inappropriate, in violation of laws, regulations and government policies or infringing upon third-party rights. When any inappropriate or illegal content is identified, we promptly terminate the live stream and remove the concerned comments or bullet chats. Further actions may also be taken to hold relevant content creators accountable.

Our automated AI-backed screening mechanism serves as the first layer of defense in our content review system. This system automatically flags and screens out live streams that involve inappropriate or illegal audio, video, comments or chats by comparing the image, sound or text against our databases in real time. Once the content is processed by our AI-backed automated screening mechanism, our system then extracts identifiers from the content and sends them to our manual content screening team, our second layer of defense, for further review. Our manual content screening team screens and monitors content uploaded to our platform on a 24-hour, 7-day basis to ensure that the flagged content is reviewed and any inappropriate or illegal live stream is immediately suspended or terminated. In addition, our manual content screening team proactively monitors and reviews the live streams independently on a real-time basis.

Our third layer of defense is our frequently updated “blacklists.” This is a database built upon historical attempts or incidents of inappropriate or illegal live streams or other information provided by our third-party partners. Broadcasters or users listed on such blacklists may be temporarily or permanently banned from streaming or viewing on our platform, or may be subject to more stringent review and monitoring by our team on a case-by-case basis.

Finally, we have adopted an easy-to-use and responsive abuse reporting mechanism on our platform, which allows any of our users to report inappropriate content through “report” links. Any content being reported will be reviewed by our manual content screening team and appropriate actions will be taken.

Our broadcasters are required to register on a real-name basis. In addition, we require broadcasters to consent to the terms and conditions set forth in the broadcaster agreement of our platform before they can start live streaming. Pursuant to such agreement, each broadcaster undertakes not to live stream or otherwise distribute content that violates any PRC laws or regulations or infringes upon the intellectual property rights of any third party, and agrees to indemnify us for all damages arising from third-party claims against us caused by the infringing content produced by such broadcaster.

Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. As of the date of this annual report, we have registered 133 patents in China, and have applied for 763 additional patents with the PRC State Intellectual Property Office and 18 additional patents under the patent cooperation treaty. In China, it generally takes up to one year for the Patent Office under the State Intellectual Property Office to review, and approve or deny applications of patents in the category of utility model or design and two to five years in the category of invention. See “Item 4. Information on the Company—B. Business Overview—Government Regulations— Intellectual Property Rights—Patents.”

We have registered 138 software copyrights and 32 copyrights of artworks with the PRC National Copyright Administration. We have 199 registered domain names, including *huya.com*. As of the date of this annual report, we have 327 registered trademarks in China and 38 registered trademarks in Hong Kong and 121 registered trademarks overseas, including our "Huya," "□□," and "□□□□" trademarks, and are in the process to register additional 383 trademarks. We have obtained a royalty-free and exclusive license from Guangzhou Huaduo to use 39 patents, 8 of which are under application.

We intend to vigorously protect our technology and proprietary rights, but there can be no assurance that our efforts will be successful. Even if our efforts are successful, we may incur significant costs in defending our rights. From time to time, third parties may initiate litigation against us alleging infringement of their proprietary rights or claiming they have not infringed upon our intellectual property rights. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Our Industry—We may be subject to intellectual property infringement claims or other allegations, which could result in our payment of substantial damages, penalties and fines, removal of relevant content from our websites and apps or seeking license arrangements which may not be available on commercially reasonable terms" and "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Our Industry—We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position."

Seasonality

We may experience seasonality in our business, reflecting seasonal fluctuations in online entertainment consumption. As a result, comparing our operating results on a period-to-period basis may not be meaningful. For example, our users, revenues or profits may be impacted by public holidays, school vacations, e-sport tournaments and game events that we launch from time to time, marketing campaigns and promotional activities that we conduct from time to time, or regulations, rules and guidelines that government authorities pose from time to time.

Branding and Marketing

We believe that our content variety and optimal user experience have led to repeated user visits and a strong word-of-mouth effect that strengthens awareness of our brand among users and broadcasters.

As a supplement to word-of-mouth marketing, we often promote our brand and platform through a mix of online and offline marketing and promotional events. We market our platform through advertisements on search engines and various app stores and websites. We also cooperate with smartphone manufacturers, game developers and publishers, or internet cafes to attract new users. With respect to our offline marketing measures, we organize meet-and-greet events for our users to meet star broadcasters, sponsor e-sports tournaments and game events and hold other user community events.

Competition

Online live streaming is an emerging industry in China. As a leading player in this market, we face competition from providers of similar services, such as DouYu, and other online entertainment platforms. Online live streaming platforms that focus on games content compete directly with us for users and broadcasters. In addition, we compete with other large video streaming platforms, social media platforms and other platforms offering online entertainment. Some of our competitors may have longer operating histories, significantly larger user bases, more established brand names, broader product or service offerings, significantly greater financial, technical and marketing resources than we do or have long-term strategic relationships with game developers or publishers, and in turn may have an advantage in attracting and retaining users, broadcasters, talent agencies, advertisers and other business partners. We believe that our ability to compete effectively for users depends upon many factors, including the variety of our content, user experience on our platform, retention of key broadcasters, effectiveness of content monitoring and review, our relationship with business partners, our marketing efforts and reputation of our brands.

In addition, as our business continues to grow rapidly, we face significant competition for highly skilled personnel, including management, engineers, product managers and content management personnel. The success of our growth strategy depends in part on our ability to retain our existing personnel and add additional highly skilled employees.

Legal Proceedings

We are currently not a party to any material legal or administrative proceedings. We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management's time and attention. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Our Industry—We may be held liable for information or content displayed on, retrieved from or linked to our platform, or distributed to our users, and PRC authorities may impose legal sanctions on us, including, in serious cases, suspending or revoking the licenses needed to operate our platform," and "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Our Industry—We may be subject to intellectual property infringement claims or other allegations, which could result in our payment of substantial damages, penalties and fines, removal of relevant content from our websites and apps or seeking license arrangements which may not be available on commercially reasonable terms."

Government Regulations

PRC Regulations

As the live streaming industry is still at an early stage of development in China, new laws and regulations may be promulgated from time to time to introduce new regulatory requirements, including but not limited to, requirements of obtaining new licenses and permits in addition to those we currently have. There are substantial uncertainties on the interpretation and implementation of current and future PRC laws and regulations, including those applicable to the live streaming industry and our business. This section sets forth a summary of the most significant laws and regulations that are applicable to our current business activities in China and that affect the dividends payment to our shareholders.

Regulation on Telecommunications Services

In September 2000, the State Council issued the Regulations on Telecommunications of China, or the Telecommunications Regulations, as amended on July 29, 2014 and February 6, 2016, to regulate telecommunications activities in China. The Telecommunications Regulations set out basic guidelines on different types of telecommunications business activities in China. According to the Catalog of Telecommunications Business (2015 Amendment) implemented on March 1, 2016, internet information services are a type of value-added telecommunications services. The Telecommunications Regulations require operators of value-added telecommunications services to obtain value-added telecommunications business operation licenses from the Ministry of Industry and Information Technology, or the MIIT, or its provincial branches prior to the commencement of such services. Currently, through Guangzhou Huya, our PRC consolidated affiliated entity, we hold an ICP license, a sub-category of the value-added telecommunications business operation license, covering provisions of internet and mobile network information services, issued by the Guangdong branch of the MIIT on May 27, 2017.

Regulations Relating to Foreign Ownership Restrictions

The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises, or the FITE Regulations, which took effect on January 1, 2002 and were amended on September 10, 2008 and February 6, 2016, regulate foreign direct investment in telecommunications companies in China. The FITE Regulations stipulate that foreign investors are prohibited from holding more than 50% of equity interest in a foreign-invested enterprise that provides value-added telecommunications services, including, among others, provision of internet content. In addition, foreign investors are required to have sufficient experience of operating value-added telecommunications business when applying for the MIIT's value-added telecommunications business license.

On July 13, 2006, the MIIT issued the Circular on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Services, or the MIIT Circular 2006, which provides that (a) foreign investors can only operate telecommunications business in China through telecommunications enterprises with valid telecommunications business operation license; (b) domestic licensees may not rent, transfer or sell telecommunications business licenses to foreign investors in any form or provide any foreign investors with resources, venues or facilities to promote unlicensed operations of telecommunications businesses in China; (c) value-added telecommunications service providers or their shareholders must directly own the domain names and registered trademarks that are used in their daily operations; (d) each value-added telecommunications service provider must have necessary facilities for its approved business operations and maintain such facilities in the geographic regions specified in its license; and (e) all value-added telecommunications service providers should improve their network and information security, establish relevant information safety system and set up emergency plans to ensure network and information safety. Provincial communications administration bureaus, which serve as local authorities in charge of regulating telecommunications services, (a) shall require existing qualified value-added telecommunication service providers to conduct self-assessment on their compliance with the MIIT Circular 2006 and report to the MIIT before November 1, 2006; (b) may revoke the business license for telecommunications businesses that do not meet the above requirements or fail to correct any non-compliance within specified time limit. However, due to the lack of additional interpretation from PRC regulatory authorities, it remains unclear as to what impact MIIT Circular 2006 may have on us or other PRC internet companies with similar corporate and contractual structures.

On June 30, 2019, the MOFCOM and the National Development and Reform Commission, or NDRC, issued the Special Management Measures (Negative List) for the Access of Foreign Investment (2019), or the Negative List 2019, with effect from July 30, 2019. Pursuant to the Negative List 2019 that reaffirmed the previous regulations on foreign investment in the telecommunications industry, the foreign stake in a value-added service may not exceed 50%, and the Chinese party shall have controlling interest in basic telecommunications.

To comply with such foreign ownership restrictions, we operate our live streaming platform in China through Guangzhou Huya, our variable interest entity, which is owned by Guangzhou Huaduo and Guangzhou Qinlv. The shareholders of Guangzhou Huaduo are Mr. David Xueling Li, our director, and Beijing Tuda Science and Technology Co., Ltd, a variable interest entity of JOYY. The sole shareholder of Guangzhou Qinlv is Mr. Rongjie Dong, our chief executive officer and director. We gained control and became the sole beneficiary of Guangzhou Huya through a series of contractual arrangements between Huya Technology, Guangzhou Huya and Guangzhou Huya's shareholders. Moreover, Guangzhou Huya is the registered holder of domain names, trademarks and facilities necessary for our daily operations, which we believe is in compliance with the MIIT Circular 2006. We are advised by our PRC legal counsel, Commerce & Finance Law Offices, that based on its understanding of the current PRC laws, rules and regulations, our corporate structure complies with all existing PRC laws and regulations. However, we are further advised by our PRC legal counsel that there are substantial uncertainties with respect to interpretation and application of existing or future PRC laws and regulations and thus there is no assurance that PRC governmental authorities would take a view consistent with the opinions of our PRC legal counsel.

Internet Information Services

The Administrative Measures on Internet Information Services, or the ICP Measures, issued by the State Council on September 25, 2000 and amended on January 8, 2011, regulate provision of internet information services in the PRC. According to the ICP Measures, internet information services refer to provision of information through internet to online subscribers, including commercial and non-commercial services. Pursuant to the ICP Measures, commercial internet information service providers shall obtain ICP licenses, from relevant PRC local authorities before engaging in commercial internet information services in China. In addition, according to relevant PRC laws, administrative regulations or rules, providers of internet information services in respect of news, publishing, education, medical treatment, health, pharmaceuticals or medical apparatus shall obtain consent of the relevant PRC competent authority before applying for operating permit or carrying out record-filing procedures. Guangzhou Huya currently holds the ICP license on internet information services issued by the Guangdong branch of the MIIT on May 27, 2017.

Besides, the ICP Measures and other relevant measures also prohibit publication of any content that propagates, among others, obscenity, pornography, gambling and violence, incite the commission of crimes or infringe upon the lawful rights and interests of third parties. If an internet information services provider detects that information transmitted on its system falls under the specified prohibition, such provider must immediately terminate the transmission and delete the information and report to the government authorities. Any provider's violation of these prohibitions will lead to revocation of its ICP license and, in serious cases, shutdown of its internet systems.

Internet Publication and Cultural Products

On February 4, 2016, State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China, or the SAPPRFT, and the MIIT issued the Measures for Network Publication Service Administration, or Network Publication Measures, which took effect on March 10, 2016. The Network Publication Measures introduced an internet publishing license regime for internet publications. According to the Network Publication Measures, the term "online publications" includes games, animation, audio and video readings in literature, art, science and other fields. The operation of online games is deemed an internet publication activity; therefore, an online game operator must (i) obtain an internet publishing services license so that it can directly operate its online games to the public in the PRC, or (ii) publish its online games through a qualified press entity by entering into a corporation agreement.

As of the date of this annual report, we have not obtained an internet publishing license. As the date of this annual report, online games developed or operated by us have been published through third-party partners who have internet publishing licenses. Currently, we allow broadcasters to upload their recorded video clip on our platform. We also selectively record and edit live streaming gameplay of certain popular broadcasters and turn them into video clip highlights, which may be considered as the "internet publications." Thus, we may be required to obtain an internet publishing license by the authorities.

On February 18, 2020, the MIIT issued a Circular on Employing the New Generation of Information Technology to Support and Serve Epidemic Prevention and Control and Resumption of Work and Production, or the Circular, to support the improvement of online retail services and logistics distribution systems during the epidemic period, strengthen the development of digital cultural products and services in e-books, films and televisions, games and other fields, and to form a rich variety of "zero-contact" shopping and entertainment modes.

Anti-fatigue Compliance System and Real-name Registration System

On April 15, 2007, eight PRC government authorities, including the GAPP, the Ministry of Education, the Ministry of Public Security and the MIIT, jointly issued a circular requiring the implementation of an anti-fatigue compliance system and a real-name registration system by all PRC online game operators. Under the anti-fatigue compliance system, three hours or less of continuous game playing by minors, defined as game players under 18 years of age, is considered to be "healthy", three to five hours is deemed "fatiguing", and five hours or more is deemed "unhealthy." Game operators are required to reduce the value of in-game benefits to a game player by half if it discovers that the amount of a time a game player spends online has reached the "fatiguing" level, and to zero in the case of the "unhealthy" level.

To identify whether a game player is a minor and thus subject to the anti-fatigue compliance system, a real-name registration system should be adopted to require online game players to register their real identity information before playing online games. Pursuant to a notice issued by the relevant eight government authorities on July 1, 2011, online game operators must submit the identity information of game players to the National Citizen Identity Information Center, a subordinate public institution of the Ministry of Public Security, for verification as of October 1, 2011.

In addition, pursuant to the Provisions on the Administration of Online Live-streaming Services promulgated by Cyberspace Administration of China on November 4, 2016 and took effect on December 1, 2016, live streaming service providers should verify the identity of users on a live streaming platform with their information such as mobile phone number. Also, according to the Administrative Measures for Business Activities of Online Performances issued by Ministry of Culture and Tourism on December 2, 2016 and took effect on January 1, 2017, live streaming service providers should require broadcasters on a live streaming platform to make real-name registration.

Moreover, in August 2018, pursuant to the Notice on Strengthen the Management of Live Streaming Service was jointly issued by the NOAPIP, the MIIT, the Ministry of Public Security, the Ministry of Culture and Tourism, the National Radio and Television Administration, and the Cyberspace Administration of China, an internet live-streaming service provider shall fulfill ICP registration process at telecommunication authorities, and shall also apply to competent authorities for proper approvals and permits if its business involves any telecommunication service and internet news, online performances, visual or audio live broadcasts. The Notice further requires each live streaming service provider to implement real-name registration system for users, strengthen its management of internet broadcasters, establish blacklist system for internet broadcasters, integrate and enhance the monitoring and reviewing system for live broadcasting contents and the disposal measures for illegal and harmful contents.

For detailed analysis, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Our Industry—Intensified government regulation of the internet industry in China could restrict our ability to maintain or increase the level of user traffic to our platforms as well as our ability to expand into other market opportunities."

Virtual Currency

On January 25, 2007, the Ministry of Public Security, the MCT, the MIIT and the GAPP jointly issued a circular regarding online gambling which has implications on the issuance and use of virtual currency. To curtail online games that involve online gambling while addressing concerns that virtual currency might be used for money laundering or illicit trade, the circular (a) prohibits online game operators from charging commissions in the form of virtual currency in connection with winning or losing of games; (b) requires online game operators to impose limits on use of virtual currency in guessing and betting games; (c) bans the conversion of virtual currency into real currency or property; and (d) prohibits services that enable game players to transfer virtual currency to other players. To comply with the relevant section of the circular that bans the conversion of virtual currency into real currency or property, in relation to online music and entertainment, our virtual currency currently can only be used by users to exchange into virtual items to be used to show support for performers or gain access to privileges and special features in the channels which are services in nature instead of "real currency or property." Once the virtual currency is exchanged by users for virtual items or the relevant privileged services, the conversion transaction is completed and we immediately cancel the virtual item in our internal system.

In February 2007, fourteen PRC regulatory authorities jointly issued a circular to further strengthen the oversight of internet cafes and online games. In accordance with the circular, the People's Bank of China, or PBOC, has the authority to regulate virtual currency, including: (a) setting limits on the aggregate amount of virtual currency that can be issued by online game operators and the amount of virtual currency that can be purchased by an individual; (b) stipulating that virtual currency issued by online game operators can only be used for purchasing virtual products and services within the online games and not for purchasing tangible or physical products; (c) requiring that the price for redemption of virtual currency shall not exceed the respective original purchase price; and (d) banning the trading of virtual currency.

On June 4, 2009, the MCT and the MOFCOM jointly issued a notice to strengthen the administration of online game virtual currency. The Virtual Currency Notice requires businesses that (a) issue online game virtual currency (in the form of prepaid cards and/or pre-payment or prepaid card points), or (b) offer online game virtual currency transaction services to apply for approval from the MCT through its provincial branches within three months after the issuance of the notice. The Virtual Currency Notice businesses that issue virtual currency for online games are prohibited from offering services that can trade virtual currency. Any company that fails to file the necessary application will be subject to sanctions, including but not limited to mandatory corrective actions and fines.

Under the Virtual Currency Notice, online games virtual currency trading service provider refers to the business that provides platform services related to trading virtual game of online games among game users. The Virtual Currency Notice further requires an online game virtual currency transaction service provider to comply with relevant e-commerce regulations issued by the MOFCOM. According to the Guiding Opinions on Online Trading (Interim) issued by the MOFCOM on March 6, 2007, online platform services are trading services provided to online buyers and sellers through a computer information system operated by the service provider.

The Virtual Currency Notice regulates, among others, the amount of virtual currency a business can issue, the retention period of user records, the function of virtual currency and the return of unused virtual currency upon the termination of online services. Online game operators are prohibited from distributing virtual items or virtual currencies to players through random selection methods such as betting or lottery, and the player directly pays cash or virtual currency. Game operators are prohibited from issuing virtual currency to game players in any way other than legal tender purchases. Any business that provides online game virtual currency transaction services is required to adopt technical measures to restrict the transfer of online game virtual currency among accounts of different game players.

We issue different virtual currencies and prepaid tokens to users on our platforms for them to purchase various virtual items to be used in live streaming and in online game, however, our service does not constitute virtual currency transaction services because users may not transfer or trade virtual currency among themselves. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Compliance with the laws or regulations governing virtual currency may result in us having to obtain additional approvals or licenses or change our current business model.”

According to the Provisions of Functions, Structure and Staffing of the MCT issued by the General Office of the CPC Central Committee and the General Office of the State Council on July 30, 2018, the MCT will no longer assume the management responsibilities of the online game industry. However, it remains unclear whether further rules or policies regarding the application for virtual currency for online games will be issued. Given the uncertainty in the further regulatory requirements, we may be required to obtain additional approvals or licenses to continue our current business model.

Online Music and Entertainment

On November 20, 2006, the MCT issued Several Suggestions of the MCT on the Development and Administration of Internet Music, or the Suggestions, which became effective on the same date. The Suggestions, among other things, reiterate the requirement for an internet service provider to obtain an Internet Culture Operation License to carry out any business relating to internet music products. In addition, foreign investors are prohibited from operating internet culture businesses. However, the laws and regulations on internet music products are still evolving, and there have not been any provisions clarifying whether music products will be regulated by the Suggestions or how such regulation would be carried out.

On October 23, 2015, the MCT promulgated the Notice on Further Strengthening and Improving the Content Management of Online Music, which stipulated that operating entities shall carry out self-examination in respect of the content management of online music, which shall be regulated by the cultural administration departments in process or afterwards.

Guangzhou Huya holds a valid Internet Culture Operation License which allows us to carry out internet music business. Some performers on our platforms may perform along with recorded music. If any music provided through our platforms is found to lack necessary filings and/or approvals or infringe the copyright of third parties, we could be requested to cease providing such music or be subject to claims from third parties or penalties from the MCT or its local branches. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—If we fail to obtain and maintain the licenses and approvals required under the complex regulatory environment for internet-based businesses in China, our business, financial condition and results of operations may be materially and adversely affected.”

Moreover, the unauthorized posting of online music on our platforms by third parties may expose us to the risk of administrative penalties and intellectual property infringement lawsuits. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Our Industry—We may be subject to intellectual property infringement claims or other allegations, which could result in our payment of substantial damages, penalties and fines, removal of relevant content from our websites and apps or seeking license arrangements which may not be available on commercially reasonable terms” and “—Intellectual Property Rights—Copyright Law.”

In 2011, the MCT greatly intensified its regulation of the provision of online music products. According to the series of Notices on Clearing Online Music Products That Are in Violation of Relevant Regulations promulgated by the MCT since January 7, 2011, entities that provide any of the following will be subject to relevant penalties or sanctions imposed by the MCT: (a) online music products or relevant services without obtaining corresponding qualifications, (b) imported online music products that have not passed the content review of the MCT or (c) domestically developed online music products that have not been filed with the MCT. Thus far, we believe that we have eliminated from our platforms any online music products that may fall into the scope of those prohibited online music products thereunder.

On April 25, 2016, the SAPPRFT promulgated and implemented the Provisions on the Management of Private Networks and Directed Streaming Audiovisual Programs and Services. According to this regulation, any entity or person engaging in the provision of content, integrated broadcast control, transmission and distribution of private networks and directional transmission of audio-visual program services shall obtain the "Permit for the Transmission of Audio-visual Programs through Information Networks."

According to the Provisions on the Administration of Internet Audio-visual Program Services promulgated by the SARFT on December 20, 2007 and effective from January 31, 2008 and amended on August 28, 2015, the internet audio-visual program services refer to produce, edit, integrate and provide audio-visual programs to the public via the internet, as well as provide services for uploading and distributing audiovisual programs to others. Any entity or person engaging in internet audiovisual program services shall obtain the License for Disseminating Audiovisual Programs on Information Networks issued by the radio, film and television authorities in accordance with the Provisions on the Administration of Internet Audiovisual Program Services.

According to the SAPPRFT on September 2, 2016, the Circular on Issues Concerning the Management of Direct Streaming Services for Audio-visual Programs on the Internet was released which prescribed that any streaming services that stream any major political, military, economic, social, cultural and sports activities or broadcast live social activities such as cultural events and sporting events should obtain an audio-visual program license. The audio-visual programs live streaming channels operated for live webcast platform (live room) shall not be used to run news, variety, sports, interviews, comments and other audio-visual programs. However, it did not specify that live streaming of matters other than those indicated above will require a license for disseminating audiovisual programs through information networks.

Moreover, on November 4, 2016, the State Internet Information Office promulgated the Internet Streaming Services Regulations, which implemented on December 1, 2016. The Regulations also require that, online performances and online audio-visual programs provided through internet streaming, when involving the above mentioned matters, should obtain a license according to the laws and regulations related to the qualifications.

According to the Administrative Measures for Business Activities of Online Performances, or the Measures, issued by Ministry of Culture and Tourism on December 2, 2016 and took effect on January 1, 2017, the business activities of transmitting the contents of online game skills presented or narrated via information networks in real time such as internet, mobile communication networks and mobile internet or uploading such contents for communication in the audio-visual form shall be administered by the Measures, and online performance shall not use any online game product without content examination and approval number or filing number issued by competent administrative cultural authorities to present or narrate online game skills. If an online performance business entity is found to be providing performance contents in violation of Article 6 of the Measures, including the presentation or narration of online games without relevant content approval number or filing number issued by competent administrative cultural authorities, it shall be ordered to suspend such online performance, have its illegal proceeds confiscated, and be imposed upon a fine of between RMB10,000 and RMB30,000. In cases of serious offense, online platforms could be ordered to cease their business for rectification or even have their Internet Culture Business Permit revoked.

The MCT promulgated the Provisional Measures on Administration of Internet Culture in 2011, as most recently amended in December 15, 2017, and further issued the Notice on Issues Relating to Implementing the Provisional Measures on Administration of Internet Culture in the same year, which apply to entities that engage in activities related to "online cultural products." "Online cultural products" are classified as cultural products developed, published and disseminated via internet which mainly include: (i) online cultural products particularly developed for publishing via internet, such as, among other things, online music and video files, network games and online animation features and cartoons (including flash animation); and (ii) online cultural products converted from audio and visual products, games, performing arts, artworks and animation features and cartoons, and published via internet. Pursuant to these legislations, entities are required to obtain the Online Culture Operating Permits from the applicable provincial level counterpart of the MCT if they intend to commercially engage in any of the following types of activities: production, duplication, import, release or broadcasting of online cultural products; publishing of online cultural products on the internet or transmission thereof to computers, fixed-line or mobile phones, radios, television sets or gaming consoles for the purpose of browsing, reading, reviewing, using or downloading such products by online users; or exhibitions or contests related to online cultural products.

Regulations Related to Commercial Performances

The Administrative Regulations on Commercial Performances (Revised in 2016) was promulgated by the State Council and put into effect on February 6, 2016. According to the administrative regulations, to legally engage in commercial performances, a culture and arts performance group shall have full-time performers and equipment in line with its performing business, and file an application with the culture administrative department of the people's government at the county level for approval. To legally engage in commercial performances, a performance brokerage agency shall have three or more full-time performance brokers and funds for the relevant business, and file an application with the culture administrative department of the people's government of a province, autonomous region or municipality directly under central government. The culture administrative department shall make a decision within 20 days from the receipt of the application whether to approve the application, and upon approval, will issue a performance permit. Anyone or any entity engaging in commercial performance activities without approval may be imposed a penalty, in addition to being ordered to cease its actions. Such penalty may include confiscation of his or its performance equipment and illegal proceeds, and a fine of 8 to 10 times of the illegal proceeds. Where there are no illegal proceeds or the illegal proceeds are less than RMB10,000, a fine of RMB 50,000 to RMB100,000 will be imposed.

Currently, Guangzhou Huya holds a valid Commercial Performance License issued by the Guangzhou Bureau of Culture, Radio, Television, Tourism and Sport Panyu District Branch.

Online Transmission of Audio-Visual Programs

On April 13, 2005, the State Council promulgated the Certain Decisions on the Entry of the Non-state-owned Capital into the Cultural Industry. On July 6, 2005, five PRC governmental authorities, including the MCT, the SARFT, the GAPP, the CSRC and the MOFCOM, jointly adopted the Several Opinions on Canvassing Foreign Investment into the Cultural Sector. Under these provisions, non-state owned capital and foreign investors are prohibited from engaging in the business of distributing audiovisual programs through information networks.

To further regulate the provision of audio-visual program services to the public via the internet, including through mobile networks, within the territory of the PRC, the SARFT and the MIIT jointly promulgated the Administrative Provisions on Internet Audio-Visual Program Service, or the Audio-Visual Program Provisions, on December 20, 2007, which took effect on January 31, 2008 and subsequently amended on August 28, 2015. Providers of internet audio-visual program services are required to obtain the Audio-Visual License issued by SARFT, or complete certain registration procedures with SARFT. In general, providers of internet audio-visual program services must be either state-owned or state-controlled entities, and the business to be carried out by such providers must satisfy the overall planning and guidance catalog for internet audio-visual program service determined by SARFT.

On May 21, 2008, SARFT issued a Notice on Relevant Issues Concerning Application and Approval of License for the Online Transmission of Audio-Visual Programs, as amended on August 28, 2015, which further set out detailed provisions concerning the application and approval process regarding the Audio-Visual License. The notice also stipulates that internet audio-visual program services providers engaging in such services prior to the promulgation of the Audio-Visual Program Provisions are able to apply for the license so long as their violation of the laws and regulations is minor in scope and can be rectified in a timely manner and they have no records of violation during the last three months prior to the promulgation of the Audio-Visual Program Provisions. Further, on March 31, 2009, SARFT promulgated the Notice on Strengthening the Administration of the Content of Internet Audio-Visual Programs, which reiterates the pre-approval requirements for the audio-visual programs transmitted via the internet, including through mobile networks, where applicable, and prohibits certain types of internet audiovisual programs containing violence, pornography, gambling, terrorism, superstition or other similarly prohibited elements.

On March 17, 2010, the SARFT issued the Internet Audio-visual Program Services Categories (Provisional), or the Provisional Categories, as amended on March 10, 2017, which classified internet audio-visual program services into four categories. In addition, the Notice concerning Strengthening the Administration of the Streaming Service of Online Audio-Visual Programs promulgated by the SAPPRFT on September 2, 2016 emphasizes that, unless a specific license is granted, audio-visual programs service provider is forbidden from engaging in live streaming on major political, military, economic, social, cultural and sports events.

The Provisions on the Management of Private Networks and Directed Streaming Audiovisual Programs and Services was promulgated by the SAPPRFT on April 25, 2016 and put into effect on June 1, 2016. This Provisions apply to the radio and TV program and other audio-visual program services with targeted audience through the targeted transmission channels, such as local area network, virtual private network, internet and other information networks, and with TV and handheld electronic equipment as terminal recipients. According to the Audio-Visual Provisions, to engage in the transmission and distribution of audio-visual programs, the Audio-Visual License is required. Foreign-invested enterprises shall not engage in such business.

In addition, the State Internet Information Office promulgated the Administrative Provisions on Internet Live-Streaming Services, or Internet Live-Streaming Services Provisions, on November 4, 2016, which came into effect on December 1, 2016. According to the Internet Live-Streaming Services Provisions, an internet live-streaming service provider shall (a) establish a live-streaming content review platform; (b) conduct authentication registration of internet live-streaming issuers based on their identity certificates, business licenses and organization code certificates; and (c) enter into a service agreement with internet live-streaming services user to specify both parties' rights and obligations.

According to the Guangdong Province Letter for purpose of investigating live streaming businesses, only live streaming services on either (i) major political, military, economics, social, cultural, sports activities or reality event streaming or (ii) activities such as general social group cultural activities or sports events are required to apply for an Audio-Visual License. The Guangdong Province Letter further stated that live streaming of online shows, online games and online drama performances do not require an Audio-Visual License. We are also advised by Commerce & Finance Law Office, our PRC legal counsel, that the Audio-Visual License is not required for our live streaming business as of the date of this annual report. As to our video clip services on our platform, although we currently hold an Audio-Visual License, due to the interpretation and implementation of existing and future laws and regulations, this may not be sufficient to meet regulatory requirements. For detailed analysis, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Our Industry—If we fail to obtain and maintain the licenses and approvals required under the complex regulatory environment for internet-based businesses in China, our business, financial condition and results of operations may be materially and adversely affected."

In March 2018, the SAPPRFT issued the Notice on Further Regulating the Transmission Order of Internet Audio-Visual Programs, which requires that, among others, audio-visual platforms shall: (i) not produce or transmit programs intended to parody or denigrate classic works, (ii) not re-edit, re-dub, re-caption or otherwise ridicule classic works, radio and television programs, or original internet audio-visual programs without authorization, (iii) not transmit re-edited programs which unfairly distort the original content, (iv) strictly monitor the adapted content uploaded by platform users and not provide transmission channels for illicit content, (v) immediately take down unauthorized content upon receipt of complaints from copyright owners, radio and television stations, or film and television production institutions, (vi) strengthen the administration of movie trailers and prevent improper broadcasting of movie clips and trailers prior to authorized release, and (vii) strengthen the administration of sponsorship and endorsement for internet audio-visual programs. Pursuant to this notice, the provincial branches of SAPPRFT shall have the authority to supervise radio and television stations and websites that offer audio-visual programs within its jurisdiction and require them to further improve their content management systems and implement relevant management requirements.

Production of Radio and Television Programs

On July 19, 2004, the SARFT issued the Regulations on the Administration of Production of Radio and Television Programs, or the Radio and TV Programs Regulations, which took effect on August 20, 2004 and amended on August 28, 2015 and October, 2018. The Radio and TV Programs Regulations require any entities engaging in the production of radio and television programs to obtain a license for such businesses from the SARFT or its provincial branches. Entities with the License for Production and Operation of Radio and TV Programs must conduct their business operations strictly in compliance with the approved scope of production and operations and these entities (except radio and TV stations) must not produce radio and TV programs regarding current political news or similar subjects.

Guangzhou Huya holds an effective License for Production and Operation of Radio and TV Programs, covering the production, reproduction and publication of Radio and TV Programs (excluding current political, news and similar subjects and columns).

Regulation on Foreign Investment

On March 15, 2019, the Second Session of the 13th National People's Congress adopted the Foreign Investment Law of the People's Republic of China, which came into effect as of January 1, 2020. Upon its enactment, the PRC Foreign Investment Law replaced the trio of original laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments.

Unlike its first draft which was published in 2015, the approved Foreign Investment Law did not specifically expand the definition of foreign investment to include entities established through the VIE structure, which has been adopted by many PRC-based companies, including us to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. Under the Foreign Investment Law, there are not enough certainties that VIEs controlled via contractual arrangement would be deemed as FIEs, if they are ultimately "controlled" by foreign investors.

The Foreign Investment Law may materially impact our corporate governance practice and increase our compliance costs. For instance, the Foreign Investment Law establishes a foreign investment information reporting system. Foreign investors or foreign-funded enterprises shall submit the investment information to competent departments for commerce through the enterprise registration system and the enterprise credit information publicity system. The contents and scope of foreign investment information to be reported shall be determined under the principle of necessity. Where any company found to be non-compliant with these information reporting obligations, competent department for commerce shall order it to make corrections within a prescribed time limit; if such corrections are not made in time, a penalty of not less than RMB100,000 yet not more than RMB500,000 shall be imposed. Aside from report of foreign investment information, the Foreign Investment Law shall also establish a safety review system for foreign investment, under which the safety review shall be conducted for any foreign investment affecting or having the possibility to affect national security. The decision made upon the safety review in accordance with the law shall be final.

Regulation on Advertising Business and Conditions on Foreign Investment

The SAMR is the primary governmental authority regulating advertising activities in China. Regulations that apply to advertising business primarily include: (i) Advertisement Law of the People's Republic of China, promulgated by the Standing Committee of the National People's Congress on October 27, 1994 and amended on April 24, 2015 and October 26, 2018; (ii) Administrative Regulations for Advertising, promulgated by the State Council on October 26, 1987 and effective on December 1, 1987. According to the above regulations, companies that engage in advertising activities must obtain, from the SAMR or its local branches, a business license which specifically includes operating an advertising business in its business scope. Enterprises engaged in the advertising business with such advertising business in its business scope do not need to apply for an advertising operation license, but such enterprise cannot be a radio station, a television station, a newspaper and magazine publishing house or other any other entity otherwise specified in the relevant laws or administrative regulations. Enterprises engaged in advertising without permission may be fined, confiscated advertising revenue, or stopped advertising. The business license of an advertising company is valid for the duration of its existence, unless the license is suspended or revoked due to a violation of any relevant laws or regulations.

PRC advertising laws and regulations set certain content requirements for advertisements in China, including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisers, advertising agencies, and advertising distributors are required to ensure that the content of the advertisements they prepare or distribute is true and in complete compliance with applicable laws. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising distributors are obligated to confirm that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. Where serious violations occur, the SAMR or its local branches may revoke such offenders' licenses or permits for their advertising business operations.

On July 4, 2016, the SAMR issued the Interim Measures for the Administration of Internet Advertising, or the Internet Advertising Measures, which became effective on September 1, 2016. According to the Internet Advertising Measures, Internet Advertising refers to the commercial advertising for direct or indirect marketing goods or services in the form of text, image, audio, video, or others means through websites, webpages, internet apps, or other internet media. The Internet Advertising Measures specifically sets out the following requirements: (a) advertisements must be identifiable and marked with the word "advertisement" enabling consumers to distinguish them from non-advertisement information; (b) sponsored search results must be clearly distinguished from organic search results; (c) it is forbidden to send advertisements or advertisement links by email without the recipient's permission or induce Internet users to click on an advertisement in a deceptive manner; and (d) internet information service providers that do not participate in the operation of internet advertisements should stop publishing illegal advertisements if they know or should know that the advertisements are illegal.

Intellectual Property Rights

Software Registration

The State Council and the NCA have promulgated various rules and regulations relating to protection of software in China. According to these rules and regulations, software owners, licensees and transferees may register their rights in software with the Copyright Protection Center of China or its local branches and obtain software copyright registration certificates. Although such registration is not mandatory under PRC law, software owners, licensees and transferees are encouraged to go through the registration process and registered software rights may be entitled to better protections.

Patents

The National People's Congress adopted the Patent Law of the People's Republic of China in 1984 and amended it in 1992, 2000 and 2008, respectively. A patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a twenty-year term for an invention and a ten-year term for a utility model or design, starting from the application date. Except under certain specific circumstances provided by law, any third-party user must obtain consent or a proper license from the patent owner to use the patent, or else the use will constitute an infringement of the rights of the patent holder.

According to the PRC Patent Law, if the Patent Office finds the application of an invention conforms to the legal requirements after its preliminary examination of such application documents, it shall publish the application promptly within 18 full months after the filing date. According to the Guidelines of Patent Examination that took effect on July 1, 2006, as amended in 2010, 2013, 2014 and 2017, the examination of patent shall include the preliminary examination, the substantive examination, examination of international applications entering the national phase and review. However, the above-mentioned regulations do not explicitly state how long it takes for a patent application to be approved or denied. In practice, it generally may take up to one year for the Patent Office to review and approve or deny applications of patents in the category of utility model or design and two to five years in the category of invention.

Copyright Law

The Copyright Law of the People's Republic of China, promulgated in 1990 and amended in 2001 and 2010, or the Copyright Law, and its related implementation regulations, promulgated in 2002 and amended in 2013, are the principal laws and regulations governing the copyright related matters. The amended Copyright law covers internet activities, products disseminated over the internet and software products, among the subjects entitled to copyright protections. Registration of copyright is voluntary, and it is administrated by the China Copyright Protection Center.

To further clarify some key internet copyright issues, on December 17, 2012, the PRC Supreme People's Court promulgated the Regulation on Several Issues Concerning Applicable Laws on Trial of Civil Disputes over the Infringement of Information Network Transmission Right, or the 2013 Regulation. The 2013 Regulation took effect on January 1, 2013, and replaced the Interpretations on Some Issues Concerning Applicable Laws for Trial of Disputes over Internet Copyright that was initially adopted in 2000 and subsequently amended in 2004 and 2006. Under the 2013 Regulation, where an internet information service provider work in cooperation with others to jointly provide works, performances, audio and video products of which the right holders have information network transmission right, such behavior will constitute joint infringement of third parties' information network transmission right, and the PRC court shall order such internet information service provider to assume join liability for such infringement.

To address the problem of copyright infringement related to content posted or transmitted on the internet, the PRC National Copyright Administration and MIIT jointly promulgated the Measures for Administrative Protection of Copyright Related to Internet on April 29, 2005. These measures, which became effective on May 30, 2005, apply to acts of automatically providing services such as uploading, storing, linking or searching works, audio or video products, or other contents through the internet based on the instructions of internet users who publish contents on the internet, or the Internet Content Providers, without editing, amending or selecting any stored or transmitted content. When imposing administrative penalties upon the act which infringes upon any users' right of communication through information networks, the Measures for Imposing Copyright Administrative Penalties, promulgated in 2009, shall be applied.

Where a copyright holder finds that certain internet content infringes upon its copyright and sends a notice to the relevant internet information service operator, the relevant internet information service operator is required to (i) immediately take measures to remove the relevant contents, and (ii) retain all infringement notices for six months and to record the content, display time and IP addresses or the domain names related to the infringement for 60 days. If the content is removed by an internet information service operator according to the notice of a copyright holder, the content provider may deliver a counter-notice to both the internet information service operator and the copyright holder, stating that the removed content does not infringe upon the copyright of other parties. After the delivery of such counter-notice, the internet information service operator may immediately reinstate the removed contents and shall not bear administrative legal liability for such reinstatement.

An internet information service operator may be subject to cease-and-desist orders and other administrative penalties such as confiscation of illegal income and fines, if it is clearly aware of a copyright infringement through the internet or, although not aware of such infringement, it fails to take measures to remove relevant content upon receipt of the copyright owner's notice of infringement and, as a result, damages public interests.

Where there is no evidence to indicate that an internet information service operator is clearly aware of the existence of copyright infringement, or the internet information service operator has taken measures to remove relevant contents upon receipt of the copyright owner's notice, the internet information service provider shall not bear the relevant administrative legal liabilities.

We have adopted measures to mitigate copyright infringement risks. But we could still face copyright infringement claims with respect to copyrighted content being streamed live, recorded or made accessible, or songs performed live, recorded or made accessible on our platform. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Our Industry—We may be subject to intellectual property infringement claims or other allegations, which could result in our payment of substantial damages, penalties and fines, removal of relevant content from our websites and apps or seeking license arrangements which may not be available on commercially reasonable terms."

Domain Name

In June 2019, the China Internet Network Information Center, or the CNNIC issued the Implementation Rules for Registration of National First Tier Domain Names, which became effective on June 18, 2019. On August 24, 2017, the MIIT promulgated the Measures for the Administration of Internet Domain Names, or the Domain Name Measures. The Domain Name Measures regulate the registration of domain names, such as the first tier domain name ".cn." On November 27, 2017, the Ministry of Industry & Information Technology issued the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Internet Information Services which has come into force on January 1, 2018. Internet access service providers shall verify the real identity information about the domain name registrant through the Recordation System and shall verify the status of domain names used by Internet information service providers through the Recordation System on a regular basis.

Trademark

The PRC Trademark Law, adopted in 1982 and amended in 1993, 2001, 2013 and 2019, with its implementation rules adopted in 2014, protects registered trademarks. The Trademark Office of the SAMR handles trademark registrations and grants a protection term of ten years to registered trademarks, which may be extended for another ten years upon request. Trademark license agreements must be filed with the Trademark Office for record.

Internet Infringement

On December 26, 2009, the Standing Committee of National People's Congress promulgated the Tort Law of the People's Republic of China, or the Tort Law, which became effective on July 1, 2010. Under the Tort Law, an internet user or an internet service provider that infringes upon the civil rights or interests of others through using the internet assumes tort liability. If an internet user infringes upon the civil rights or interests of another through using the internet, the person being infringed upon has the right to notify and request the internet service provider whose internet services are facilitating the infringement to take necessary measures including the deletion, blocking or disconnection of an internet link. If, after being notified, the internet service provider fails to take necessary measures in a timely manner to end the infringement, it will be jointly and severally liable for any additional harm caused by its failure to act.

Regulation of Internet Content and Information Security

The Administrative Measures on Internet Information Services specify that internet information services regarding news, publications, education, medical and health care, pharmacy and medical appliances, among other things, are to be examined, approved and regulated by the relevant authorities. Internet information providers are prohibited from providing services beyond those included in the scope of their ICP licenses or filings. The PRC government has promulgated measures relating to internet content through a number of governmental agencies, including the MIIT, the MCT and the GAPP. These measures specifically prohibit internet activities, that result in the publication of any content which is found to contain, among others, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC, or compromise state security or secrets. Internet information providers must monitor and control the information posted on their websites. If any prohibited content is found, they must remove the offensive content immediately, keep a record of it and report it to the relevant authorities.

On January 13, 2006, the Ministry of Public Security promulgated the Provisions on Technological Measures for Internet Security Protection, or the Internet Protection Measures, which took effect on March 1, 2006. The Internet Protection Measures requires all internet information services operators to take proper measures including anti-virus, data back-up and other related measures, and keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations.

The National People's Congress, China's national legislative body, enacted the Decisions on the Maintenance of Internet Security on December 28, 2000 and subsequently amended on August 27, 2009, that may subject any persons to criminal liabilities in China for any attempt to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The Ministry of Public Security has promulgated measures that prohibit use of the internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content.

In 1997, the Ministry of Public Security issued the Administration Measures on the Security Protection of Computer Information Network with Internationally Connections (2011 amendment), which prohibit using the internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection powers in this regard, and relevant local security bureaus may also have jurisdiction. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its websites.

On December 28, 2012, the Standing Committee of the National People's Congress reiterated relevant rules on the protection of internet information by issuing the Decision on Strengthening the Protection of Network Information, or the 2012 Decision. The 2012 Decision distinctly clarified certain relevant obligations of the internet information service provider. Once it discovers any transmission or disclosure of information prohibited by the relevant laws and regulations, the internet information service provider shall stop transmission of such information, take measures such as elimination, keeping relevant record, and reporting to relevant authorities. To comply with the above laws and regulations, we have established an internet information security system to implement measures on information filtering. We have four levels of content management and review procedures including automated our AI backed screening technology and system, our manual content screening team, our frequently updated blacklists and our responsive abuse reporting mechanism.

Privacy Protection

Under the Several Provisions on Regulating the Market Order of Internet Information Services, issued by the Ministry of Industry and Information Technology in 2011, an ICP service operator may not collect any user personal information or provide such information to third parties without the consent of a user. An ICP service operator must expressly inform the users of the method, content and purpose for the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. PRC laws and regulations prohibit internet content providers from disclosing any information transmitted by users through their networks to any third parties without their authorization unless otherwise permitted by law. An ICP service operator is also required to properly keep the user personal information, and in case of any leak or likely leak of the user personal information, the ICP service operator must take immediate remedial measures and, in severe circumstances, to make an immediate report to the telecommunications regulatory authority. In addition, pursuant to the Decision on Strengthening the Protection of Online Information issued by the Standing Committee of the National People's Congress in December 2012 and the Order for the Protection of Telecommunication and Internet User Personal Information issued by the Ministry of Industry and Information Technology in July 2013, any collection and use of user personal information must be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. An ICP service operator must also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying of any such information, or selling or providing such information to other parties. If an internet content provider violates these regulations, the MIIT or its local bureaus may impose penalties and the internet content provider may be liable for damages caused to its users.

Regulation of Foreign Currency Exchange and Dividend Distribution

Foreign currency exchange

The core regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, as amended in August 2008, or the FEA Regulations. Certain organizations in the PRC, including foreign invested enterprises, may purchase, sell and/or remit foreign currencies at certain banks authorized to conduct foreign exchange business upon providing valid commercial documents. However, approval of the PRC State Administration of Foreign Exchange, or SAFE, is required for capital account transactions.

On August 29, 2008, SAFE issued Circular 142 to regulate the conversion of foreign currency into Renminbi by a foreign-invested enterprise by restricting the ways in which the converted Renminbi may be used. Circular 142 requires that the registered capital of a foreign invested enterprise converted into Renminbi from foreign currencies may only be utilized for purposes within its business scope. Meanwhile, the SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested enterprise settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without the SAFE's approval, and may not in any case be repayment of Renminbi loans if the proceeds of such loans have not been used. In addition, SAFE promulgated Circular 45 on November 9, 2011 in order to clarify the application of SAFE Circular 142. Under SAFE Circular 142 and Circular 45, the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC.

Since SAFE Circular 142 has been in place for more than five years, in 2014, SAFE decided to further reform the foreign exchange administration system in order to satisfy and facilitate the business and capital operations of foreign invested enterprises, and issued the Circular on the Relevant Issues Concerning the Launch of Reforming Trial of the Administration Model of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises in Certain Areas on July 4, 2014, or SAFE Circular 36. SAFE Circular 36 suspends the application of SAFE Circular 142 in certain areas and allows a foreign-invested enterprise registered in such areas to use the RMB capital converted from foreign currency registered capital for equity investments within the scope of business, which will be regarded as the reinvestment of foreign-invested enterprise. On March 30, 2015, SAFE issued the Circular on the Reforming of the Management Method of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 19, which took effect on June 1, 2015 and amended in 2016 and 2019, and replaced SAFE Circular 142 and SAFE Circular 36. Under SAFE Circular 19, a foreign-invested enterprise, within the scope of business, may also choose to convert its registered capital from foreign currency to RMB on a discretionary basis, and the RMB capital so converted can be used for equity investments within PRC, which will be regarded as the reinvestment of foreign-invested enterprise.

Dividend distribution

The Foreign Investment Enterprise Law, promulgated in 1986 and amended in 2000 and 2016, and the Administrative Rules under the Foreign Investment Enterprise Law, promulgated in 2001 and 2014, are the key regulations governing distribution of dividends of foreign-invested enterprises. The Foreign Investment Law and its implementing regulations, which took effect on January 1, 2020, replaced The Foreign Investment Enterprise Law.

According to these regulations, a wholly foreign-owned enterprise in China, or a WFOE, may pay dividends only out of its accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a WFOE is required to allocate at least 10% of its accumulated profits each year, if any, to statutory reserve funds unless its reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends. The proportional ratio for withdrawal of rewards and welfare funds for employees shall be determined at the discretion of the WFOE. Profits of a WFOE shall not be distributed before the losses thereof before the previous accounting years have been made up. Any undistributed profit for the previous accounting years may be distributed together with the distributable profit for the current accounting year.

Circular 37. Pursuant to SAFE's Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or SAFE Circular 37, issued and effective on July 4, 2014, and its appendixes, PRC residents, including PRC institutions and individuals, must register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interest in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, including but not limited to increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event.

In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making distributions of profit to the offshore parent and from carrying out subsequent cross-border foreign exchange activities and the special purpose vehicle may be restricted in their ability to contribute additional capital into its PRC subsidiary. And, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion, including (i) of up to 30% of the total amount of foreign exchange remitted overseas and deemed to have been evasive, and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive. Furthermore, the persons-in-charge and other persons at our PRC subsidiaries who are held directly liable for the violations may be subject to criminal sanctions. These regulations apply to our direct and indirect shareholders who are PRC residents and may apply to any offshore acquisitions and share transfer that we make in the future if our shares are issued to PRC residents. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us or otherwise expose us to liability and penalties under PRC law."

Stock option rules

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, or Circular 7, issued by SAFE in February 2012, employees, directors, supervisors and other senior management participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our wholly foreign owned subsidiaries in China and limit these subsidiaries' ability to distribute dividends to us. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall file each quarter the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with SAFE or its local branches. We and our PRC citizen employees who have been granted share options, or PRC optionees, are subject to the Stock Option Rules. If we or our PRC optionees fail to comply with the Individual Foreign Exchange Rule and the Stock Option Rules, we and our PRC optionees may be subject to fines and other legal sanctions. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us or otherwise expose us to liability and penalties under PRC law."

In addition, the State Administration for Taxation has issued circulars concerning employee share options, under which our employees working in the PRC who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or if we fail to withhold their income taxes as required by relevant laws and regulations, we may face sanctions imposed by the PRC tax authorities or other PRC government authorities.

Regulation on Tax

PRC enterprise income tax

The PRC enterprise income tax is calculated based on the taxable income determined under the applicable EIT Law and its implementation rules. On March 16, 2007, the National People's Congress of China enacted the New EIT Law, which became effective on January 1, 2008 and was subsequently amended on February 24, 2017 and December 29, 2018. On December 6, 2007, the State Council promulgated the implementation rules to the New EIT Law, which also became effective on January 1, 2008.

Under the PRC Enterprise Income Tax Law, an enterprise established outside China with "de facto management bodies" within China is considered a "resident enterprise" for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. A circular issued by the State Administration of Taxation in April 2009 and amended in November 2013 and December 2017 regarding the standards used to classify certain Chinese invested enterprises controlled by Chinese enterprises or Chinese enterprise groups and established outside of China as "resident enterprises" clarified that dividends and other income paid by such PRC "resident enterprises" will be considered PRC source income and subject to PRC withholding tax, currently at a rate of 10%, when paid to non PRC enterprise shareholders. This circular also subjects such PRC "resident enterprises" to various reporting requirements with the PRC tax authorities. Under the implementation regulations to the PRC Enterprise Income Tax Law, a "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise.

According to Circular 82, a Chinese-controlled offshore-incorporated enterprise will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions set forth in Circular 82 are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals and board and shareholder resolutions are located or maintained in the PRC; and (iv) 50% or more of voting board members or senior executives habitually reside in the PRC.

In addition, the SAT Bulletin 45, which was amended in June 2015, June 2016 and June 2018, provides clarification on the resident status determination, post-determination administration, and competent tax authorities. It also specifies that when provided with a copy of PRC resident determination certificate from a resident Chinese-controlled offshore-incorporated enterprise, the payer should not withhold 10% income tax when paying certain PRC-sourced income such as dividends, interest and royalties to the Chinese-controlled offshore-incorporated enterprise.

On February 3, 2015, the SAT Circular 7 superseded existing provisions in relation to the Indirect Transfer as set forth in Circular 698, while the other provisions of Circular 698 remain in force. SAT Circular 7, which came into effect on the same day, amended on October 17, 2017 and December 29, 2017, introduces a new tax regime that is significantly different from that under Circular 698. According to the Announcement of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source that took effect in December 2017, Circular 698 has been abolished. Public Notice extends its tax jurisdiction to capture not only Indirect Transfer as set forth under Circular 698 but also transactions involving transfer of immovable property in China and assets held under the establishment and place, in China of a foreign company through the offshore transfer of a foreign intermediate holding company. SAT Circular 7 also addresses transfer of the equity interest in a foreign intermediate holding company widely. In addition, SAT Circular 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and introduces safe harbor scenarios applicable to internal group restructurings. However, it also brings challenges to both the foreign transferor and transferee of the Indirect Transfer as they have to make self-assessment on whether the transaction should be subject to PRC tax and to file or withhold the PRC tax accordingly. According to SAT Circular 7, "PRC taxable properties" include assets of a PRC establishment or place of business, real properties in the PRC, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining if there is a "reasonable commercial purpose" of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable properties; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable properties have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable properties; and the tax situation of such indirect transfer outside China, and its applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment or place of business of a foreign enterprise, the resulting gain is to be included with the annual enterprise filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to PRC real properties or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payer fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the competent tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. Currently, neither SAT Circular 698 nor SAT Circular 7 applies to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

We do not meet all of the conditions above; therefore, we believe that we should not be treated as a "resident enterprise" for PRC tax purposes even if the standards for "de facto management body" prescribed in the SAT Circular 82 are applicable to us. For example, our minutes and files of the resolutions of our board of directors and the resolutions of our shareholders are maintained outside the PRC. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Under the PRC enterprise income tax law, we may be classified as a PRC "resident enterprise," which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment."

Value added tax

On January 1, 2012, the State Administration of Taxation officially launched a pilot VAT reform program, or Pilot Program, applicable to businesses in selected industries. Businesses in the Pilot Program would pay VAT instead of business tax. The Pilot Industries in Shanghai included industries involving the leasing of tangible movable property, transportation services, research and development and technical services, information technology services, cultural and creative services, logistics and ancillary services, certification and consulting services. The Pilot Program initially applied only to transportation industry and modern service industries, Pilot Industries, in Shanghai in 2011 and expanded to eight trial regions (including Beijing and Guangdong province) and nationwide progressively from August to December 2012. The Pilot Industries in Shanghai included industries involving the leasing of tangible movable property, transportation services, research and development and technical services, information technology services, cultural and creative services, logistics and ancillary services, certification and consulting services. Revenues generated by advertising services, a type of "cultural and creative services", are subject to the VAT tax rate of 6%. According to official announcements made by competent authorities in Beijing and Guangdong province, Beijing launched the same Pilot Program on September 1, 2012, and Guangdong province launched it on November 1, 2012. Revenues generated by advertising services, a type of "cultural and creative services," are subject to the VAT tax rate of 6%. Going forward, in Guangdong province, we will pay the pilot VAT instead of business taxes for our live streaming services, advertising activities, and for any other parts of our business that are deemed by the competent state tax authorities to be in the scope of the Pilot Industries.

On December 12, 2013, the Ministry of Finance and the SAT issued the Circular on Including the Railway Transportation and Postal Industries in the Pilot Program of Replacing Business Tax with Value-Added Tax, or the Pilot Collection Circular. The scope of certain modern services industries under the Pilot Collection Circular is expanded to cover research and development and technical services, cultural and creative services, and radio, film and television services. In addition, according to the Notice on Including the Telecommunications Industry in the Pilot Program of Levying Value-added Tax in Lieu of Business Tax, which became effective on June 1, 2014, the scope of certain modern services industries under the Pilot Collection Circular is further expanded to cover the telecommunications industry. On March 23, 2016, the MOF and the SAT issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value added Tax in Lieu of Business Tax. Effective from May 1, 2016, the PRC tax authorities collect VAT in lieu of Business Tax in all regions and industries. The primary applicable rate of VAT is 6% for the years ended December 31, 2017, 2018 and 2019.

Construction fee of cultural undertakings

According to applicable PRC tax regulations or rules, advertising service providers are generally required to pay a construction fee of cultural undertakings at the rate of 3% on the revenues (a) which are generated from providing advertising services and (b) which are also subject to VAT after the VAT reform program. According to the Notice of the Ministry of Finance on Adjusting the Relevant Policies of Certain Government-Managed Funds ("Cai Shui 2019 No. 46") issued by the Ministry of Finance, and relevant local policies, from 1 July 2019 to 31 December 2024, construction fee of cultural undertakings have been reduced by 50% in certain jurisdictions. Our PRC subsidiaries are subject to this policy.

Labor laws and social insurance

The principle laws that govern employment include: (i) Labor Law of the People's Republic of China, promulgated by the Standing Committee of the National People's Congress on July 5, 1994, effective since January 1, 1995 and amended on August 27, 2009 and December 29, 2018; and (ii) Labor Contract Law of the People's Republic of China, promulgated by the Standing Committee of the National People's Congress on June 29, 2007 and amended on December 28, 2012.

According to the Labor Law and Labor Contract Law, employers must execute written labor contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly comply with state rules and standards and provide employees with workplace safety training. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative penalties. For serious violations, criminal liability may arise.

In addition, an employer is obligated to sign an indefinite term labor contract with an employee if the employer continues to employ the employee after two consecutive fixed term labor contracts. The employer also has to pay compensation to the employee if the employer terminates an indefinite term labor contract. And Employers in China are required to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing funds.

According to the Social Insurance Law, an employer that fails to make social insurance contributions may be ordered to pay the required contributions within a stipulated deadline and be subject to a late fee. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue. According to the Regulations on Administration of Housing Fund, an enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated deadline; otherwise, an application may be made to a local court for compulsory enforcement.

We have caused all of our full-time employees to enter into written labor contracts with us and have provided and currently provide our employees with the proper welfare and employment benefits.

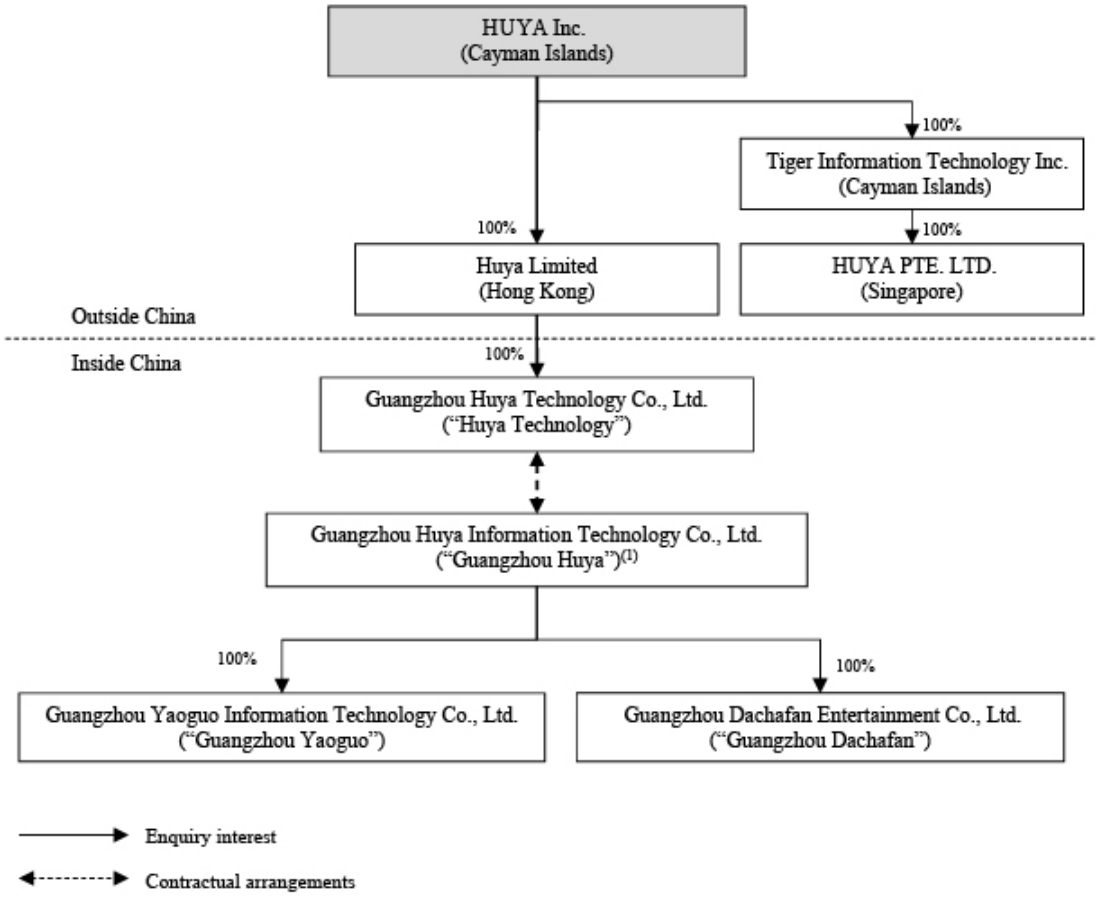
New M&A regulations and overseas listings

On August 8, 2006, six PRC governmental agencies jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the New M&A Rule, which became effective on September 8, 2006, and amended on June 22, 2009. The New M&A Rule requires offshore special purpose vehicles formed to pursue overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals to obtain the approval of the Chinese Securities Regulatory Commission, or the CSRC, prior to the listing and trading of such special purpose vehicle's securities on any stock exchange overseas.

The application of the M&A Rules remains unclear. We are advised by our PRC legal counsel, Commerce & Finance Law Offices, that based on its understanding on the current PRC laws, rules and regulations, prior approval from the CSRC is not required under the M&A Rules for the listing and trading of our ADSs on the NYSE. For detailed analysis, see "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—China's M&A Rules and certain other PRC regulations establish complex procedures for certain acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China."

C. Organizational Structure

The following diagram summarizes our corporate structure chart, including our subsidiaries, our variable interest entity and its subsidiaries, as of the date of this annual report:



(1) The shareholders of Guangzhou Huya are Guangzhou Huaduo and Guangzhou Qinlv Investment Consulting Co., Ltd., or Guangzhou Qinlv, holding 99.01% and 0.99% of Guangzhou Huya's equity interest, respectively. The shareholders of Guangzhou Huaduo are Mr. David Xueling Li, our director, and Beijing Tuda Science and Technology Co., Ltd, or Beijing Tuda, a variable interest entity of JOYY. The sole shareholder of Guangzhou Qinlv is Mr. Rongjie Dong, our chief executive officer and director.

Contractual Arrangements with Guangzhou Huya

PRC laws and regulations impose restrictions on foreign ownership and investment in internet-based businesses such as distribution of online information, value-added telecommunications services. We are a Cayman Islands company and our PRC subsidiary is considered a foreign-invested enterprise. We believe the live streaming services offered through our platform constitute a type of value-added telecommunication services that foreign ownership and investment are restricted; and therefore we should operate our platform through contractual arrangements with a variable interest entity and its shareholders to ensure compliance with the relevant PRC laws and regulations. We have entered into a series of contractual arrangements, through Huya Technology, with Guangzhou Huya and the shareholders of Guangzhou Huya to obtain effective control over Guangzhou Huya and its subsidiaries, through which we operate our live streaming business.

We currently conduct our business through Guangzhou Huya and its subsidiaries based on these contractual arrangements, which allow us to:

- exercise effective control over Guangzhou Huya and its subsidiaries;
- receive substantially all of the economic benefits of Guangzhou Huya and its subsidiaries; and
- have an exclusive option to purchase all or part of the equity interests in Guangzhou Huya when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we have become the primary beneficiary of Guangzhou Huya, and we treat Guangzhou Huya as our variable interest entity under U.S. GAAP. We have consolidated the financial results of Guangzhou Huya and its subsidiaries in our consolidated financial statements in accordance with U.S. GAAP.

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Huya Technology, our variable interest entity, Guangzhou Huya, and the shareholders of Guangzhou Huya.

Agreements that provide us with effective control over Guangzhou Huya

Shareholder Voting Rights Proxy Agreement. On July 10, 2017, Huya Technology, Guangzhou Huya, and the shareholders of Guangzhou Huya entered into a voting rights proxy agreement. Under the voting rights proxy agreement, each of the shareholders of Guangzhou Huya irrevocably executed a power of attorney and appointed Huya Technology as its attorney-in-fact to exercise such shareholders' rights in Guangzhou Huya, including, without limitation, the power to vote on its behalf on all matters of Guangzhou Huya requiring shareholder approval under PRC laws and regulations and the articles of association of Guangzhou Huya and rights to information relating to all business aspects of Guangzhou Huya. The term of this agreement is ten years from the execution date of this agreement and will be automatically extended for one more year indefinitely. Huya Technology has sole discretion to terminate the agreement at any time by providing 30 days' prior written notice to Guangzhou Huya.

Equity Interest Pledge Agreement. On July 10, 2017, Huya Technology, Guangzhou Huya and the shareholders of Guangzhou Huya entered into an equity interest pledge agreement. Pursuant to the equity interest pledge agreement, the shareholders of Guangzhou Huya have pledged all of their equity interests in Guangzhou Huya to Huya Technology to guarantee the performance by Guangzhou Huya and its shareholders' performance of their respective obligations under the exclusive business cooperation agreement, exclusive option agreement and voting rights proxy agreement. If Guangzhou Huya or its shareholders breach their contractual obligations under those agreements, Huya Technology, as the pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. This pledge will become effective on the date the pledged equity interests are registered with the competent administration for industry and commerce and will remain effective until the pledgors are no longer the shareholders of Guangzhou Huya. We registered the pledged equity interests with the competent administration for industry and commerce on August 25, 2017.

Agreement that allows us to receive economic benefits from Guangzhou Huya

Exclusive Business Cooperation Agreement. On July 10, 2017, Huya Technology, Guangzhou Huya, and the shareholders of Guangzhou Huya entered into an exclusive business cooperation agreement. Under the exclusive business cooperation agreement, Huya Technology has the exclusive right to provide to Guangzhou Huya technology support, business support and consulting services related to Guangzhou Huya's business, the scope of which is to be determined by Huya Technology from time to time. Huya Technology owns the exclusive intellectual property rights created as a result of the performance of this agreement. The timing and amount of the service fee payments shall be determined at the sole discretion of Huya Technology. The term of this agreement is ten years from the execution date of this agreement and will be automatically extended for another ten years, unless otherwise agreed upon by Huya Technology and Guangzhou Huya.

Agreement that provide us with the option to purchase the equity interests in Guangzhou Huya

Exclusive Option Agreement. On July 10, 2017, Huya Technology, Guangzhou Huya, and the shareholders of Guangzhou Huya entered into an exclusive option agreement. Under the exclusive option agreement, each of the shareholders irrevocably granted Huya Technology or its designated representatives an exclusive option to purchase, to the extent permitted under PRC law, all or part of his or its equity interests in Guangzhou Huya. Huya Technology or its designated representatives have sole discretion as to when to exercise such options, either in part or in full. Without Huya Technology's prior written consent, Guangzhou Huya's shareholders shall not sell, transfer, mortgage or otherwise dispose their equity interests in Guangzhou Huya. The term of this agreement is ten years and may be extended at Huya Technology's sole discretion.

In the opinion of Commerce & Finance Law Offices, our PRC legal counsel:

- the ownership structures of Huya Technology and Guangzhou Huya are in compliance with PRC laws or regulations currently in effect; and
- the contractual arrangements among Huya Technology, Guangzhou Huya and the shareholders of Guangzhou Huya governed by PRC law, are valid, binding and enforceable under PRC law, and do not and will not result in any violation of applicable PRC laws or regulations currently in effect.

However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. If the PRC government finds that the agreements that establish the structure for operating our live streaming business do not comply with PRC government restrictions on foreign investment in value-added telecommunications services business, such as the internet content provision services, we could be subject to severe penalties, including being prohibited from continuing operations. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government finds that the structure we have adopted for our business operations does not comply with PRC laws and regulations, or if these laws or regulations or interpretations of existing laws or regulations change in the future, we could be subject to severe penalties, including the shutting down of our platform and our business operations," "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of the internet industry and companies," "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us," and "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Substantial uncertainties exist with respect to the enactment timetable and final content of a draft new PRC Foreign Investment Law and how it may impact the viability of our current corporate structure."

D. Property, Plants and Equipment

Our corporate headquarters is located in Guangzhou, China. As of the date of April 3, 2020, we have leased office space with an aggregate area of over 30,402 square meters, of which 22,701 square meters are in our Guangzhou headquarters and the remainder in Zhuhai, Beijing and other cities within and outside China. We lease certain of our office premises from JOYY, a major shareholder of ours, under operating lease agreements. Our physical servers are primarily hosted at internet data centers owned by major domestic internet data center providers. We believe that our existing facilities are generally adequate in meeting our current needs, but we expect to seek additional space as needed to accommodate future growth.

ITEM 4.A. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report. This report contains forward-looking statements. See "Forward-Looking Information." In evaluating our business, you should carefully consider the information provided under the caption "Item 3. Key Information—D. Risk Factors" in this annual report. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

We are a leading game live streaming platform in China. Leveraging our advantages as a pioneer and leader in the rapidly growing game live streaming market in China, we have successfully emerged as one of the leading content-centric platforms with powerful content development capabilities. Our commitment to providing strong support and resources to broadcasters and talent agencies allows us to offer high-quality content from diversified sources. Through close cooperation with e-sports tournament and game event organizers, as well as major game developers and publishers, we have developed e-sports live streaming as one of the most popular content genres on our platform. In addition to rich content in game and e-sports genres, we have also expanded our offerings to cover non-game entertainment content, such as talent shows, anime, outdoor activities, live chats, and online theater. Having high-quality original content from numerous sources and in different genres enables us to continuously provide users with superior experience and enhance user stickiness to our platform. The average MAUs of Huya Live grew to 150.2 million in the fourth quarter of 2019 from 116.6 million in the fourth quarter of 2018; and the average mobile MAUs of Huya Live in the fourth quarter of 2019 reached 61.6 million, compared to 50.7 million in the fourth quarter of 2018. Our management regularly monitors these operating metrics, which are important and direct performance indicators, in managing our live streaming business and in making relevant operational and production decisions.

Results of Operations

The following table sets forth a summary of our consolidated statements of comprehensive (loss) income for the years indicated, both in absolute amounts and as percentages of our total net revenues:

	For the year ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except for percentages)						
Net revenues:							
Live streaming	2,069,536	94.7	4,442,845	95.3	7,976,214	1,145,711	95.2
Advertising and others	115,280	5.3	220,595	4.7	398,287	57,210	4.8
Total net revenues	2,184,816	100.0	4,663,440	100.0	8,374,501	1,202,921	100.0
Cost of revenues[(1)]	(1,929,864)	(88.3)	(3,933,647)	(84.4)	(6,892,579)	(990,057)	(82.3)
Gross profit	254,952	11.7	729,793	15.6	1,481,922	212,864	17.7
Operating expenses:							
Research and development expenses[(1)]	(170,160)	(7.8)	(265,152)	(5.7)	(508,714)	(73,072)	(6.1)
Sales and marketing expenses[(1)]	(87,292)	(4.0)	(189,207)	(4.1)	(438,396)	(62,972)	(5.2)
General and administrative expenses[(1)]	(101,995)	(4.7)	(287,710)	(6.1)	(352,824)	(50,680)	(4.2)
Total operating expenses	(359,447)	(16.5)	(742,069)	(15.9)	(1,299,934)	(186,724)	(15.5)
Other income	9,629	0.5	38,938	0.8	79,390	11,404	0.9
Operating (loss) income	(94,866)	(4.3)	26,662	0.5	261,378	37,544	3.1
Interest and short-term investments income	14,049	0.6	156,549	3.4	304,491	43,737	3.6
Fair value loss on derivative liabilities	—	—	(2,285,223)	(49.0)	—	—	—
Foreign currency exchange gains, net	—	—	51	0.0	1,157	166	0.0
(Loss) income before income tax benefits (expenses)	(80,817)	(3.7)	(2,101,961)	(45.1)	567,026	81,447	6.7
Income tax benefits (expenses)	—	—	50,943	1.1	(96,078)	(13,801)	(1.1)
(Loss) income before share of (loss) income in equity method investments, net of income taxes	(80,817)	(3.7)	(2,051,018)	(44.0)	470,948	67,646	5.6
Share of (loss) income in equity method investments, net of income taxes	(151)	(0.0)	113,329	2.4	(2,775)	(399)	(0.0)
Net (loss) income	(80,968)	(3.7)	(1,937,689)	(41.6)	468,173	67,247	5.6

Note:

(1) Share-based compensation was allocated in cost of revenues and operating expenses as follows:

	For the year ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in thousands)			
Cost of revenues	2,877	10,472	31,593	4,538
Research and development expenses	9,174	30,643	86,296	12,396
Sales and marketing expenses	791	1,832	5,919	850
General and administrative expenses	27,266	183,748	157,936	22,686

Net revenues

Total net revenues increased by 113.4% from RMB2,184.8 million in 2017 to RMB4,663.4 million in 2018, and further increased by 79.6% to RMB8,374.5 million (US$1,202.9 million) in 2019. On January 1, 2018, we adopted ASC 606, “Revenue from Contracts with Customers” using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Based on our assessment, the adoption of ASC 606 did not have any material impact on our consolidated financial statements.

Live streaming revenues. We generate revenues from our live streaming services primarily through sale of virtual items. Users can access content on our platform free of charge, but are charged for their purchases. The virtual items sold by us mainly include (i) consumable items, which can be gifted to the broadcasters or used in live streams to create special effects, (ii) time-based items, which provide paying users or receiving broadcasters with certain privileges and rights or special symbols over a period of time, and (iii) multiple virtual items sold in bundles. Revenues derived from consumable items are recognized immediately upon consumption, while revenues derived from time-based items are recognized over their usage period on a straight line basis. Based on our revenue-sharing arrangements with broadcasters, and in some cases, also their talent agencies, we share a percentage of the revenues generated from the sales of virtual items attributed to their live streams. We expect that our revenues from live streaming primarily derived from the sales of virtual items will continue to increase as we capitalize on monetization opportunities.

Live streaming revenues increased by 79.5% from RMB4,442.8 million in 2018 to RMB7,976.2 million (US$1,145.7 million) in 2019, primarily attributable to the increase in spending per paying user and the increase in the number of paying users on Huya Live, which reached 13.4 million in 2019. The increase in average spending per paying user was primarily driven by the enhancement of content attractiveness, the diversification of content offerings and the improvement in user experience. The increase in the number of paying users was primarily driven by our user growth.

Live streaming revenues increased by 114.7% from RMB2,069.5 million in 2017 to RMB4,442.8 million in 2018, primarily attributable to the increase in spending per paying user and the increase in the number of paying users on Huya Live, which reached 10.5 million in 2018. The increase in spending per paying user was primarily driven by the enhancement of content attractiveness, improvement on user experience and increase in time spent on our platform by our users. The increase in the number of paying users was primarily driven by our mobile-focused strategy, diversification of content offerings on our platform, optimization of user experience, and continuous efforts in converting users into paying users.

Advertising and other revenues. We generate advertising revenues primarily from sales of various forms of advertising and promotion campaigns, including (i) display advertisements in various areas of our platform, (ii) native advertisements in cooperation with broadcasters, and (iii) game events advertising and campaigns. Advertisements on our platform are generally charged on the basis of duration. We enter into advertising contracts directly with advertisers or with third-party advertising agencies. We expect our advertising revenues to increase in the foreseeable future as we introduce new advertising and marketing solutions and attract more advertisers. We also generate a small portion of revenues from sales of in-game virtual items from certain mobile games that we developed and operated jointly with third-party distribution platforms.

Advertising and other revenues increased by 80.6% from RMB220.6 million in 2018 to RMB398.3 million (US$57.2 million) in 2019, primarily driven by rising demand from an increasing number of advertisers, more diversity in advertising clients, the advertising distribution platform that we launched in the third quarter of 2019, and further recognition of Huya's brand name in China's online advertising market.

Advertising and other revenues significantly increased by 91.4% from RMB115.3 million in 2017 to RMB220.6 million in 2018, primarily attributable to our deepened cooperation with advertisers in the game industry, our continuous efforts to expand the advertising services business and monetize the traffic and streaming content with our business partners, as well as the further enhancement of our brand name following our initial public offering in 2018.

Cost of revenues

The following table sets forth the principal components of our cost of revenues by absolute amount and as a percentage of our total cost of revenues for the years presented.

	For the year ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except for percentages)						
Cost of revenues:							
Revenue sharing fees and content costs	1,394,832	72.3	3,060,836	77.8	5,552,712	797,597	80.6
Bandwidth costs	411,027	21.3	652,758	16.6	800,827	115,032	11.6
Salaries and welfare	52,372	2.7	101,939	2.6	255,258	36,666	3.7
Payment handling costs	14,071	0.7	22,780	0.6	120,429	17,299	1.7
Depreciation and amortization	32,562	1.7	26,697	0.7	40,082	5,757	0.6
Share-based compensation	2,877	0.1	10,472	0.3	31,593	4,538	0.5
Other taxes and surcharges	8,283	0.4	14,747	0.4	22,694	3,260	0.3
Others	13,840	0.8	43,418	1.0	68,984	9,908	1.0
Total cost of revenues	1,929,864	100.0	3,933,647	100.0	6,892,579	990,057	100.0

Revenue sharing fees and content costs. Revenue sharing fees and content costs consist primarily of payments to broadcasters and talent agencies in accordance with our revenue-sharing arrangements and content production costs.

Revenue sharing fees and content costs increased by 81.4% from RMB3,060.8 million in 2018 to RMB5,552.7 million (US$797.6 million) in 2019, primarily due to (i) an increase of 79.5 % in sales of virtual items on our platform from RMB4,442.8 million in 2018 to RMB7,976.2 million (US$1,145.7 million) in 2019 and (ii) continued spending on content creators and e-sports content in both domestic and overseas markets. Revenue sharing fees and content costs as a percentage of our total net revenues remained relatively stable at 65.6% in 2018 and 66.3% in 2019. We expect that our revenue sharing fees and content costs will continue to increase in absolute amount as we continue to expand our content offerings and enhance our user engagement.

Revenue sharing fees and content costs increased by 119.4% from RMB1,394.8 million in 2017 to RMB3,060.8 million in 2018, primarily due to (i) an increase of 114.7% in sales of virtual items on our platform from RMB2,069.5 million in 2017 to RMB4,442.8 million in 2018 and (ii) continued spending on e-sports content and content creators.

Bandwidth costs. Bandwidth costs consist of fees and charges relating to bandwidth usage in our operations.

Bandwidth costs increased by 22.7% from RMB652.8 million in 2018 to RMB800.8million (US$115.0 million) in 2019, primarily due to an increase in bandwidth usage as a result of user base expansion and increased average MAUs on Huya Live from 100.0 million in 2018 to 141.0 million in 2019 and enhanced live streaming video quality, partially offset by improved efficiency in bandwidth utilization through continuous technology enhancement efforts. We expect bandwidth costs to continue to increase in absolute amount as we further grow our user base and improve our live streaming quality but be partially offset by our improved efficiency and pricing terms.

Bandwidth costs increased by 58.8% from RMB411.0 million in 2017 to RMB652.8 million in 2018, primarily due to an increase in bandwidth usage as a result of increased average MAUs on Huya Live from 83.4 million in 2017 to 100.0 million in 2018 and improvement of live streaming video quality, partially offset by our improved efficiency in bandwidth utilization through continued deployment of new technologies in content distribution.

Others. Salaries and welfare consist of salaries, bonuses and other benefits for our employees involved in the operations of our platform. Payment handling costs consist primarily of channel fees charged by our third-party payment channels, such as WeChat Pay and AliPay and expenses relating to cash collection services provided by JOYY. Depreciation and amortization expense consists of depreciation of servers and other equipment as well as amortization of intangibles directly related to operating the platform, such as software. Other costs consist primarily of share-based compensation, other taxes and surcharges, rental expenses and certain expenses relating to our IT infrastructure.

Salaries and welfare increased by 150.4% from RMB101.9 million in 2018 to RMB255.3 million (US$36.7 million) in 2019, primarily attributable to an increase in employee headcount and an increase in average salary. Payment handling costs increased by 428.7% from RMB22.8 million in 2018 to RMB120.4 million (US$17.3 million) in 2019, primarily attributable to an increase in sales of virtual items on our platform. Depreciation and amortization costs increased by 50.1% from RMB26.7 million in 2018 to RMB40.1 million (US$5.8 million) in 2019, mainly because of additional servers and equipment purchased for operating the platform. Share-based compensation increased by 201.7% from RMB10.5 million in 2018 to RMB31.6 million (US$4.5 million) in 2019, primarily due to the grant of additional share incentive awards in 2019. Other taxes and surcharges increased by 53.9% from RMB14.7 million in 2018 to RMB22.7 million (US$3.3 million) in 2019, primarily due to an increase in net revenue. Other costs increased by 58.9% from RMB43.4 million in 2018 to RMB69.0 million (US$9.9 million) in 2019, primarily due to our business expansion.

Salaries and welfare increased by 94.6% from RMB52.4 million in 2017 to RMB101.9 million in 2018, primarily attributable to an increase in employee headcount and an increase in average salary. Depreciation and amortization costs decreased by 18.0% from RMB32.6 million in 2017 to RMB26.7 million in 2018, mainly because of our continued effort in reducing our physical servers and adopting cloud services. Payment and handling costs increased by 61.9% from RMB14.1 million in 2017 to RMB22.8 million in 2018, primarily attributable to an increase in sales of virtual items on our platform. Other taxes and surcharges increased by 78.0% from RMB8.3 million in 2017 to RMB14.7 million in 2018, primarily due to an increase in net revenue. Share-based compensation increased by 264.0% from RMB2.9 million in 2017 to RMB10.5 million in 2018, primarily due to the grant of additional share incentive awards in 2018. Other costs increased by 213.7% from RMB13.8 million in 2017 to RMB43.4 million in 2018, primarily due to our business expansion.

Gross profit

Our gross profit increased by 103.1% from RMB729.8 million in 2018 to RMB1,481.9 million (US$212.9 million) in 2019, and our gross margin improved from 15.6% in 2018 to 17.7% in 2019.

Our gross profit increased by 186.2% from RMB255.0 million in 2017 to RMB729.8 million in 2018, and our gross margin improved from 11.7% in 2017 to 15.6% in 2018.

Operating expenses

Operating expenses increased by 75.2% from RMB742.1 million in 2018 to RMB1,299.9 million (US$186.7 million) in 2019. Operating expenses increased by 106.4% from RMB359.4 million in 2017 to RMB742.1 million in 2018.

Research and development expenses. Research and development expenses consist primarily of salaries, welfare and share-based compensation for research and development personnel.

Research and development expenses increased by 91.9% from RMB265.2 million in 2018 to RMB508.7 million (US$73.1 million) in 2019, primarily attributable to the increase in headcount and average salary of research and development personnel as well as shared-based compensation expenses related to the share awards newly granted in 2019. We expect that research and development expenses to continue to increase in absolute amount in the near term due to our investment in research and development of new technologies, particularly relating to the continuous upgrade of our IT system, and continuous increase in headcount of research and development personnel.

Research and development expenses increased by 55.8% from RMB170.2 million in 2017 to RMB265.2 million in 2018, primarily attributable to the increase in the salaries and welfare of research and development personnel as well as shared-based compensation expenses related to the share awards newly granted in 2018.

Sales and marketing expenses. Sales and marketing expenses consist primarily of advertising and market promotion expenses, salaries and welfare as well as shared-based compensation for sales and marketing personnel, and rental expenses of office premises utilized by sales and marketing personnel.

Sales and marketing expenses increased by 131.7% from RMB189.2 million in 2018 to RMB438.4 million (US$63.0 million) in 2019, primarily attributable to the increased marketing expenses associated with the promotions for our products and brand name in both domestic and overseas markets, as well as increased personnel-related expenses. We expect that our sales and marketing expenses will increase in absolute amount in the near term as we expect to increase our spending on marketing and promotional activities, particularly relating to strengthening our brand recognition in China and our expansion in overseas markets.

Sales and marketing expenses increased by 116.8% from RMB87.3 million in 2017 to RMB189.2 million in 2018, primarily attributable to an increase in marketing and promotion expenses due to enhanced efforts in promoting our brand awareness, e-sport content, and cooperating with various marketing channels.

General and administrative expenses. General and administrative expenses consist primarily of salaries and welfare for management and administrative personnel, share-based compensation for management and administrative personnel and rental expenses of office premises.

General and administrative expenses increased by 22.6% from RMB287.7 million in 2018 to RMB352.8 million (US$50.7 million) in 2019, primarily attributable to the increase in personnel-related expenses. We expect our general and administrative expenses to increase in the foreseeable future as we grow our business and incur more costs relating to operating as a public company and complying with relevant regulatory obligations.

General and administrative expenses increased by 182.1% from RMB102.0 million in 2017 to RMB287.7 million in 2018, primarily attributable to the increase in share-based compensation expenses related to the share awards newly granted, as well as salaries and welfare of management personnel and professional fees.

Other income

Our other income increased by 103.9% from RMB38.9 million in 2018 to RMB79.4 million (US$11.4 million) in 2019, primarily attributable to tax refund and government subsidy.

Our other income increased by 304.4% from RMB9.6 million in 2017 to RMB38.9 million in 2018, primarily attributable to tax refund and government subsidy.

Operating income (loss)

Our operating income increased by 880.3% from RMB26.7 million in 2018 to RMB261.4 million (US$37.5 million) in 2019, and our operating margin improved from 0.5% in 2018 to 3.1% in 2019.

We had an operating loss of RMB94.9 million in 2017 and an operating income of RMB26.7 million in 2018, and our operating margin improved from (4.3)% in 2017 to 0.5% in 2018.

Interest and short-term investments income

Interest and short-term investments income consists of interest earned on bank deposits, short-term wealth management products and money market funds with maturities of less than one year.

Our interest and short-term investment income increased significantly from RMB156.5 million in 2018 to RMB304.5 million (US$43.7 million) in 2019, primarily attributable to interest generated from deposits of the funds we received through our follow-on public offering in 2019, and our series B financing and our initial public offering in 2018.

Our interest and short-term investment income increased significantly from RMB14.0 million in 2017 to RMB156.5 million in 2018, primarily attributable to interest generated from deposits of the funds we received through our series B financing and our initial public offering in 2018.

Fair value loss on derivative liabilities

We recorded nil of fair value loss on derivative liabilities in 2019.

We recorded fair value loss on derivative liabilities of RMB2,285.2 million in 2018. Such fair value loss on derivative liabilities was related to the conversion features of our preferred shares that existed before our initial public offering, which needed to be bifurcated and accounted for as derivative liabilities in the second quarter of 2018. Upon completion of our initial public offering, the derivative liabilities were derecognized and all of the balance was transferred to additional paid-in capital accordingly.

Income tax benefits (expenses)

We recorded income tax benefits of RMB50.9 million in 2018 and income tax expenses of RMB96.1 million (US$13.8 million) in 2019, mainly due to the profitability of certain operating entities in the PRC. For details on such income tax benefits (expenses), please see Note 18(b) to our audited consolidated financial statements included elsewhere in this annual report.

Share of (loss) income in equity method investments, net of income taxes

We recorded share of loss in equity method investments, net of income taxes, of RMB2.8 million (US$0.4 million) in 2019. We recorded share of income in equity method investments, net of income taxes, of RMB113.3 million in 2018, mainly attributable to the subsequent adjustment for significant observable price change for our equity investee's investment measured at fair value through earnings. For details on such share of income in equity method investments, net of income taxes, please see Note 10(i) to our audited consolidated financial statements included elsewhere in this annual report.

Net (loss)income attributable to HUYA Inc.

We had a net income attributable to HUYA Inc. of RMB468.2 million (US$67.2 million) in 2019, as compared to a net loss attributable to HUYA Inc. of RMB1,937.7 million in 2018.

We had a net loss attributable to HUYA Inc. of RMB1,937.7 million in 2018, as compared to a net loss attributable to HUYA Inc. of RMB81.0 million in 2017.

Taxation

Cayman Islands

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty.

Maples and Calder (Hong Kong) LLP, our legal counsel as to Cayman Islands law, has advised us that there are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

Hong Kong

Huya Limited, our subsidiary incorporated in Hong Kong, is subject to 8.25% and 16.5% Hong Kong profit tax on its taxable income within HKD$2 million and beyond HKD$2 million, respectively. Payments of dividends are not subject to any withholding tax. Hong Kong profit tax on its taxable income generated from operations in Hong Kong.

Singapore

HUYA PTE. LTD., our subsidiary incorporated in Singapore, is subject to 17% income tax on its assessable profit generated from its international operations.

PRC

Generally, our PRC subsidiary, variable interest entity and its subsidiaries are subject to enterprise income tax on their taxable income in China at a statutory rate of 25%. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

Qualified software enterprises, or the Software Enterprise, are exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing either from the first year of commercial operations or from the first year of profitable operation after offsetting tax losses generating from prior years. Certified High and New Technology Enterprises, or HNTE, are entitled to a preferential tax rate of 15% but are required to re-apply for the preferential tax treatment every three years. During the three-year period, an HNTE must conduct a self-review of its qualification each year to ensure it meets the HNTE criteria. If an HNTE fails to meet the criteria for any year, the enterprise cannot enjoy the 15% preferential tax rate that year and must instead be subject to the uniform 25% income tax rate. An entity that qualifies as a "Key National Software Enterprise" (a "KNSE") is entitled to a further reduced preferential income tax rate of 10%. Entities must perform a self-assessment each year to ensure they meet the criteria for qualification, pursuant to SAT Public Notice [2018] No.23 ("Circular 23"). If a KNSE fails to meet the criteria for qualification as a KNSE in any year, the entity cannot enjoy the 10% preferential tax rate in that year.

Our PRC entities provided for enterprise income tax are as follows:

- Huya Technology was qualified as a Software Enterprise, and enjoyed the zero preferential tax rate starting from 2017 and 12.5% preferential tax rate starting from 2019. In 2019, Huya Technology is qualified as a KNSE and applied the income tax rate of 10% for the year of 2019 pursuant to SAT Public Notice [2018] No.23 ("Circular 23").
- Guangzhou Huya applied for the HNTE qualification and obtained approval in November 2018. It entitled to enjoy the preferential tax rate of 15% as an HNTE for three years starting from 2018, and should apply for HNTE qualification renewal in 2021.
- Most of the remaining PRC subsidiaries and VIEs were subject to 25% EIT for the years reported.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction amounting to 50% of the qualified research and development expenses incurred in determining its tax assessable profits for that year. The additional tax deducting amount of the qualified research and development expenses have been increased from 50% to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018 ("Super Deduction").

We are primarily subject to value-added tax at a rate of 6% on the services (research and development services, technology services, information technology services and/or culture and creativity services), in each case less any deductible value-added tax we have already paid or borne. We are also subject to surcharges on value-added tax payments in accordance with PRC law.

Commerce & Finance Law Offices, our legal counsel as to PRC law, has advised us that dividends paid by our PRC subsidiary in China to our Hong Kong subsidiary will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and submits required application materials to the relevant tax authority, the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. Should the tax authority later decide that the preferential 5% tax rate is inapplicable based on subsequent reviews of the application, additional tax payable and late payment surcharges may be imposed.

Commerce & Finance Law Offices, our legal counsel as to PRC law, has advised us that if our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a "resident enterprise" under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Under the PRC Enterprise Income Tax Law, we may be classified as a PRC 'resident enterprise,' which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment."

Inflation

To date, inflation in the PRC has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2017, 2018 and 2019 were increases of 1.8%, 1.9% and 4.5%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in the PRC. For example, certain operating costs and expenses, such as employee compensation and office operating expenses may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and cash equivalents and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.

Critical Accounting Policies

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and accompanying notes and other disclosures included in this annual report. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Principle of consolidation

Our consolidated financial statements include the financial statements of HUYA Inc., its subsidiaries, the variable interest entity and the variable interest entity's subsidiaries for which HUYA Inc. is the primary beneficiary. All transactions and balances among HUYA Inc., its subsidiaries and the variable interest entity and the variable interest entity's subsidiaries have been eliminated upon consolidation.

A subsidiary is an entity in which HUYA Inc., directly or indirectly, controls more than one half of the voting powers; or has the power to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meeting of directors; or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A variable interest entity is an entity in which HUYA Inc., or its subsidiary, through contractual agreements, bears the risks of, and enjoys the rewards normally associated with ownership of the entity, and therefore HUYA Inc. or its subsidiary is the primary beneficiary of the entity. In determining whether HUYA Inc. or its subsidiaries are the primary beneficiary, we considered whether HUYA Inc. has the power to direct activities that are significant to the variable interest entity's economic performance, and also HUYA Inc.'s obligation to absorb losses of the variable interest entity that could potentially be significant to the variable interest entity or the right to receive benefits from the variable interest entity that could potentially be significant to the variable interest entity. Huya Technology and ultimately HUYA Inc. hold all the variable interests of the variable interest entity and has been determined to be the primary beneficiary of the variable interest entity.

Revenue recognition

On January 1, 2018, we adopted ASC 606, "Revenue from Contracts with Customers" using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. Based on our assessment, the adoption of ASC 606 did not have any material impact to our consolidated financial statements and there were no material differences between our adoption of ASC 606 and our historic accounting under ASC 605.

Revenues are recognized when control of the promised virtual items or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those virtual items or services.

Live streaming

We are principally engaged in operating our own live streaming platforms, which enable broadcasters and viewers to interact with each other during live streaming. We generate revenue primarily from sales of virtual items in our platforms. We have a recharge system for users to purchase our virtual currency then purchase virtual items for use. Users can recharge via various online third-party payment platforms, including WeChat Pay, AliPay and other payment platforms. Virtual currency is non-refundable and has no expiration date. As the virtual currency is often consumed soon after it is purchased based on history of turnover of the virtual currency, we consider that the virtual currency does not entitle to a breakage amount. Unconsumed virtual currency is recorded as deferred revenue. Virtual currencies used to purchase virtual items are recognized as revenue according to the prescribed revenue recognition policies of virtual items addressed below unless otherwise stated. We share a portion of the sales proceeds of virtual items ("revenue sharing fee") with broadcasters and talent agencies in accordance with the revenue sharing arrangements. Broadcasters, who do not have revenue sharing arrangements with us, are not entitled to any revenue sharing fee.

We evaluate and determine that we are the principal and streaming users to be our customers. We report live streaming revenues on a gross basis. Accordingly, the amounts billed to users are recorded as revenues and revenue sharing fee paid to broadcasters and talent agencies are recorded as cost of revenues. Where we are the principal, we control the virtual items before they are transferred to users. Our control is evidenced by our sole ability to monetize the virtual items before they are transferred to users, and is further supported by us being primarily responsible to users and having a level of discretion in establishing pricing.

We design, create and offer various virtual items for sales to users with pre-determined stand-alone selling price. Sales proceeds are recorded as deferred revenue and recognized as revenue based on the consumption of the virtual items. Virtual items are categorized as consumable and time-based items. Consumable items are consumed upon purchase and use while time-based items could be used for a fixed period of time. Users can purchase and present consumable items to broadcasters to show support for their favorite broadcasters, or purchase time-based virtual items for one or multiple months for a monthly fee, which provide users with recognized status, such as priority speaking rights or special symbols over a period of time. Revenue related to each of consumable items as a single performance obligation provided on a consumption basis, is recognized at the point in time when the virtual item is transferred directly to the users and consumed by them, while revenue related to time-based virtual items provided on a subscription basis is recognized ratably over the contract period. We do not have further performance obligations to the user after the virtual items are consumed immediately or after the stated contract period of time for time-based items.

We may also enter into contracts that can include various combinations of virtual items, which are generally being distinguished and accounted for as separate performance obligations, such as Huya Noble Member Program. Determining whether those virtual items are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. The contract of Huya Noble Member Program, which is normally purchased on a monthly basis, includes three major virtual items, a) the noble member status, b) the virtual currency coupons, and c) the right of subsequent renewal at a discounted price, which are considered distinct and accounted for separately under ASC 606. A noble member status itself cannot be purchased on a standalone basis, and it is valid for one month but the users can simultaneously purchase multiple months of the package (with the effective period of noble member status limited to a maximum of 24 months from the date of purchase) at any point in time. The virtual currency coupons, which have the same purchase power as our virtual currency but with expiry dates, are valid for purchasing virtual items for a fixed period. Judgment is required to determine the standalone selling price for each distinct performance obligation and we then allocate the arrangement consideration to the separate accounting of each distinct performance obligation based on their relative standalone selling prices. In instances where the standalone selling price is not directly observable as we do not sell the virtual item separately, such as the noble member status and the virtual currency coupons, we determine the standalone selling price based on pricing strategies, market factors and other strategic objectives. In respect of the right to subsequent renewal at a discounted price, we estimate individual user's times of renewal based on historical data of users' spending pattern and average times of renewal. We recognize revenue for each of the distinct performance obligations identified in accordance with the applicable revenue recognition method relevant for that obligation. For revenue allocated to noble member status, it's generally recognized ratably over the contract period as users simultaneously consume and receive benefits. For revenue related to virtual currency coupons provided on a consumption basis, virtual currency coupons used to purchase virtual items are recognized as revenue according to the prescribed revenue recognition policies of virtual items addressed above unless otherwise stated. Although the virtual currency coupons have expiry dates, we consider the impact of the breakage amount for virtual currency coupons is insignificant as historical data shows that virtual currency coupons are consumed shortly after they are released to users and the forfeiture rate remains relatively low for the periods reported, therefore, we do not expect to be entitled to a breakage amount for the virtual currency coupons. For the right of subsequent renewal at a discounted price, upon each time a subsequent renewal is purchased, the cash received is recorded as deferred revenue and allocated proportionally to the noble member status and virtual currency coupons based on their relative standalone selling price and revenue is then recognized following the revenue recognition method of noble member status and virtual currency coupons as described above.

As our live streaming virtual items are generally sold without right of return and we do not provide any other credit and incentive to our users, therefore accounting of variable consideration when estimating the amount of revenue to recognize is not applicable to our live streaming business.

Advertising

We primarily generate advertising revenues from sales of various forms of advertising and provision of promotion campaigns on the live streaming platforms by way of advertisement display or integrated promotion activities in shows and programs on the live streaming platforms. Advertisements on our platforms are generally charged on the basis of duration, and advertising contracts are signed to establish the fixed price and the advertising services to be provided. Where the service is transferred to our customers, advertising revenues from advertising contracts are recognized ratably over the contract period of display.

We enter into advertising contracts directly with advertisers or third-party advertising agencies that represent advertisers. Payment terms and conditions vary by contract type, although the terms generally include a requirement of payment within 3 months. Both third-party advertising agencies and direct advertisers are generally billed at the end of the display period and payments are due usually within 3 months. In instances where the timing of revenue recognition differs from the timing of billing, we have determined the advertising contracts generally do not include a significant financing component. The primary purpose of the credits terms is to provide customers with simplified and predictable ways of purchasing our advertising services, not to receive financing from our customers or to provide customers with financing.

Certain customers may receive sales incentives in the forms of discounts and rebates to advertisers or advertising agencies based on purchase volume, which is accounted for as variable consideration. We estimate these amounts based on the expected amount to be provided to customers considering the contracted rebate rates and estimated sales volume based on historical experience, and reduce revenues recognized. We believe that there will not be significant changes to its estimates of variable consideration.

Online games revenues

We generate revenues from offering virtual items in online games developed by us or third parties to game users. We have a recharge system for game user to purchase game tokens for use. Game user can recharge via various online third-party payment platforms, including WeChat Pay, AliPay and other payment platforms. Game token is non-refundable and has no expiration date. As the game token is often consumed soon after it is purchased based on history of turnover of the game token, we consider it does not expect to be entitled to a breakage amount for the game token.

The majority of online games revenues were derived from our self-developed games for the periods presented.

With respect to the game operation contracts entered into between us and distribution platforms for co-publishing or between us and users for self-publishing, we own the games' copyrights and other intellectual property rights, and take primary responsibilities of game development and game operation, including designing, development, and updating of the games including the game content, as well as the pricing of virtual items, providing on-going updates of new contents and bug fixing, determining the distribution platforms and payment channels, and providing customer services. Therefore, we consider ourselves to be the principal in these contracts and game users to be our customers. Revenues derived from self-developed games are recorded on a gross basis, and fees to be shared with distribution platforms and payment handling costs charged by payment platforms are recorded as cost of revenues.

Users play games free of charge and are charged for purchases of virtual items mainly including consumable and perpetual items, which can be utilized to enhance users' game-playing experience. Consumable items represent virtual items that can be consumed by a specific user within a specified period of time. Perpetual items represent virtual items that are accessible to the users' account over the life of the online games. We maintain information on consumption details of in-game virtual items, therefore, we recognize revenues based on item-based model: (1) for consumable items, the revenue is recognized immediately upon consumption as we do not have further performance obligations to the user after the virtual items are consumed immediately; (2) for perpetual items, as we have responsibilities to ensure the game users can continue to gain access to the games to get the in-game experience and benefit after the sale of the perpetual items and our service obligations are directly linked to each game user's engagement, therefore, the revenue from sales of perpetual items is recognized ratably over the user relationship period of a specific game as described below.

The estimated user relationship period is based on data collected from those game users who have purchased game tokens. We maintain system that captures the following information for each game user: (a) the frequency that game users log into each game, and (b) the amount and the timing of when the game users charge his or her game token. We estimate the user relationship period for a particular game to be the date a user purchases a game token through the date we estimate the game user plays the game for the last time. This computation is completed on a user by user basis. Then, the results for all analyzed users are averaged to determine an estimated end user relationship period for each game. Revenues from in-game payments of each month are recognized over the user relationship period estimated for that game.

The determination of user relationship period is based on our best estimate that takes into account all known and relevant information at the time of assessment. We assess the estimated user relationships on a monthly basis. Any adjustments arising from changes in the user relationship as a result of new information will be accounted as a change in accounting estimate in accordance with ASC 250 Accounting Changes and Error Corrections.

Fair Value of ordinary shares

Prior to the completion of initial public filing, in determining the grant date fair value of our ordinary shares for purposes of recording share-based compensation expenses in connection with share options and restricted share units under the Amended and Restated 2017 Plan and the shares awarded to Mr. Rongjie Dong, our chief executive officer and director, by JOYY, or CEO Awards, we, with the assistance of an independent valuation firm, evaluated the use of three generally accepted valuation approaches: market, cost and income approaches to estimate the enterprise value of our company and income approach (discounted cash flow, or DCF method) was relied on for value determination with market approach (guideline companies method, or GCM) taken as reference.

DCF method of the income approach involves applying appropriate weighted average cost of capital, or WACC, to discount the future cash flows forecast, based on our best estimates as of the valuation date, to present value. The WACC was determined based on a consideration of the factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systematic risk factors.

GCM under the market approach was adopted as reference of the equity valuation for our company. GCM employs trading multiples method of selected public comparable companies including trailing and leading enterprise value/revenue multiples.

In deriving the equity value of each class of shares, we applied the Option Pricing Method. The Option Pricing Method treats different classes of shares as call options on the total equity value, with exercise prices based on the liquidation preference or redemption amount of the certain classes of shares. Under this method, the ordinary share has value only if the fund available for distribution to shareholders exceeds the value of liquidation preference or redemption amounts at the time of a liquidity event, assuming the enterprise has funds available to make liquidation preference or redemption. Given the nature of the different classes of shares, the modeling of different classes of capital as call options on company's enterprise value is analyzed and the values of different classes of shares were derived accordingly.

We also applied a discount for lack of marketability, or DLOM, which was quantified by the Black-Scholes option pricing model. Under this option-pricing method, which assumed that the put option is struck at the average price of the stock before the privately held shares can be sold, the cost of the put option was considered as a basis to determine the DLOM.

The determination of the equity value requires complex and subjective judgments to be made regarding prospects of the industry and the products at the valuation date, our projected financial and operating results, our unique business risks and the liquidity of our shares.

The following table sets forth the fair value of our ordinary shares estimated at the grant dates of share options and restricted share units under the Amended and Restated 2017 Plan and the CEO Awards, with the assistance from an independent valuation firm, prior to our initial public offering. Upon the completion of our initial public offering, the fair value of share awards is determined with reference to our ADS price on the NYSE.

Date of valuation	Fair Value Per Share (US$)	Discount of Lack of Marketability (DLOM)	Discount Rate
August 9, 2017	2.74	20%	24%
October 8, 2017	2.74	20%	24%
March 15, 2018	7.16	10%	19%
March 31, 2018	7.16	10%	19%

Share-based compensation

Share-based compensation expense arises from share-based awards, including restricted share units granted by JOYY with its own underlying shares to certain management and other key employees who to some extent provide services to us, share options for the purchase of our ordinary shares and restricted share units granted by us to our management and other key employees and non-employees and our shares granted by JOYY to our chief executive officer.

JOYY's share-based awards

On September 16, 2011, the board of directors of JOYY approved the 2011 Share Incentive Scheme. In October 2012, the board of directors of JOYY resolved that the maximum aggregate number of Class A common shares of JOYY which may be issued pursuant to all awards under the 2011 Share Incentive Scheme shall be 43,000,000 plus an annual increase of 20,000,000 on the first day of each fiscal year, or such lesser amount of Class A common shares as determined by the board of directors of JOYY.

The 2011 Share Incentive Scheme of JOYY provides for the issuance of JOYY's common shares to our employees, which for such purpose includes our employees, mainly including restricted share units.

In determining the fair value of restricted share units granted, the fair value of the underlying shares of JOYY on the grant dates is applied. The grant date fair value of restricted share units is based on the stock price of JOYY in the Nasdaq Global Market.

Share-based compensation expense for restricted share units granted under JOYY's share-based incentive plans is recognized using the graded vesting method, net of estimated forfeiture rates, over the requisite service period, which is generally the vesting period. Forfeitures are estimated at the time of grant based on historical forfeiture rates and will be revised in the subsequent periods if actual forfeitures differ from those estimates.

Huya amended and restated 2017 Share Incentive Plan

On July 10, 2017, our board of directors approved the establishment of 2017 Share Incentive Plan, the purpose of which is to provide an incentive for employees contributing to us. The 2017 Share Incentive Plan shall be valid and effective for 10 years from the grant date. The maximum number of shares that may be issued pursuant to all awards under 2017 Share Incentive Plan shall be 17,647,058 shares. On March 31, 2018, our board of directors approved the amended and restated 2017 Share Incentive Plan. The maximum number of shares that may be issued has been increased from 17,647,058 shares to 28,394,117 shares, including incentive share options and restricted share units.

Options

Grant of options

For the year ended December 31, 2017, we granted 11,737,705 share options to our employees, pursuant to the amended and restated 2017 Share Incentive Plan.

For the year ended December 31, 2018, we granted 5,918,353 and 220,000 share options to our employees and non-employees, respectively, pursuant to the amended and restated 2017 Share Incentive Plan.

For the year ended December 31, 2019, we did not grant share options to our employees or non-employees, pursuant to the amended and restated 2017 Share Incentive Plan.

Vesting of options

There are mainly three types of vesting schedule, which are: i) 50% of the options will be vested after 24 months of the grant date and the remaining 50% will be vested in two equal installments over the following 24 months, ii) options will be vested in four equal installments over the following 48 months, and iii) options will be vested in four equal installments over the following 24 months.

These options shall (i) be exercisable during its term cumulatively according to the vesting schedule set out in the grant notice and with the applicable provisions of the amended and restated 2017 Share Incentive Plan, provided that the performance conditions otherwise agreed by the parties (if any) to which the option is subject have been fulfilled upon each corresponding vesting date; (ii) be deemed vested and exercisable immediately in the event of a change of control, regardless of the vesting schedule; (iii) be exercisable upon any arrangement as otherwise agreed by the parties based on their discussion in good faith.

Forfeitures are estimated at the time of grant. If necessary, forfeitures are revised in subsequent periods if actual forfeitures differ from those estimates.

Prior to the completion of our initial public offering, we used binomial option-pricing model to determine the fair value of the share options as of the grant dates. Key assumptions are set as below:

Valuation Date	**2017**	**2018**
Weighted average fair value per option granted	US$ 1.3798	US$ 5.2130
Weighted average exercise price	US$ 2.55	US$ 2.47
Risk-free interest rate[1]	2.25%	2.83%
Expected term (in year)[2]	10	10
Expected volatility[3]	55%	55%
Dividend yield[4]	—	—

(1) The risk-free interest rate of periods within the contractual life of the share option is based on the China Government Bond yield as at the valuation dates.
(2) The expected term is the contract life of the option.
(3) Expected volatility is estimated based on the average of historical volatilities of the comparable companies in the same industry as at the valuation dates.
(4) We have no history or expectation of paying dividend on our ordinary shares. The expected dividend yield was estimated based on our expected dividend policy over the expected term of the option.

Awards granted to non-employees are initially measured at fair value on the grant date and periodically re-measured thereafter until the earlier of the performance commitment date or the date the service is completed and recognized over the period the service is provided. Awards are re-measured at each reporting date using the fair value as at each period end until the measurement date, generally when the services are completed and share-based awards are vested. Changes in fair value between the interim reporting dates are attributed consistent with the method used in recognizing the original compensation costs. Following our listing, the grant date fair value of share options is based on the trading price of ADSs on NYSE minus the respective exercise price.

In 2019, no share option was canceled without concurrent grant of replacement awards, which is treated as a settlement for no consideration at the time of cancelation under ASC 718.

Restricted share units

Grant of restricted share units

In 2017, we granted no restricted share unit to employees or non-employees.

In 2018, we granted 4,183,685 and 10,000 restricted share units to employees and non-employees, respectively.

In 2019, we granted 2,908,370 and nil restricted share units to our employees and non-employees, respectively.

Vesting of restricted share units

There are mainly three types of vesting schedule for employees, which are: i) 50% of the restricted share units will be vested after 24 months of the grant date and the remaining 50% will be vested in two equal installments over the following 24 months, ii) restricted share units will be vested in four equal installments over the following 48 months, and iii) 25% of the restricted share units will be vested after 6 months of the grant date and the remaining 75% will be vested in three equal installments over the following 36 months.

CEO Awards

In October 2017, JOYY transferred, at nominal consideration, 559,039 ordinary shares of HUYA Inc. which were re-designated as 559,039 Class B ordinary shares, to Mr. Rongjie Dong, our chief executive officer, for his service to us. The share awards were immediately vested and we recorded a share-based compensation charge of RMB10.2 million for the year ended December 31, 2017. The fair value of the CEO's Awards was determined at the grant date by us.

Redeemable convertible preferred shares

On May 16, 2017, we entered into a series A redeemable convertible preferred shares, or series A preferred shares, subscription agreement with the series A investors and pursuant to which, we issued 22,058,823 shares of series A preferred shares at a price of US$3.4 per share with total cash consideration of US$75 million (equivalent to RMB509.7 million as of the issuance date). The issuance of the series A preferred shares was completed on July 10, 2017.

We classified the series A preferred shares as mezzanine equity in our consolidated balance sheets because they were redeemable at the holders' option any time after a certain date and were contingently redeemable upon the occurrence of certain liquidation events outside of our control. The Preferred Shares are recorded initially at fair value, net of issuance costs.

As holders of the series A preferred shares who exercise the redemption rights are allowed to request us to issue a convertible note if our assets or funds legally available for redemption are insufficient, the host contract is considered to be a debt host. We determined that there were no embedded derivatives requiring bifurcation from the host contract. The redemption feature is considered clearly and closely related to the host contract. While the conversion feature is not clearly and closely related to the host contract, no bifurcation is required as the conversion feature does not meet the definition of a derivative because the terms of the contracts do not require or explicitly state that it permits net settlement for the conversion feature.

We recognized accretion to the respective redemption value of the series A preferred shares over the period starting from issuance date to the earliest redemption date. We have used the discounted cash flow method to determine the underlying share value and adopted equity allocation model to determine the fair value of the series A preferred shares as of the dates of issuance.

Key valuation assumptions used to determine the fair value of series A preferred shares are as follows:

	For the year ended December 31, 2017
Discount rate	25%-35%
Risk-free interest rate	1.70%
Volatility	50%-80%

On March 8, 2018, we issued 64,488,235 shares of series B-2 preferred shares at a price of approximately US$7.16 per share for cash consideration of US$461.6 million (equivalent to RMB2,919.1 million as of the issuance date) to Linen Investment Limited, a wholly-owned subsidiary of Tencent, representing an equity interest of 34.6% of us on an as-converted basis.

Accounting of Series B-2 Preferred Shares

Prior to the completion of our initial public offering, we have determined that the series B-2 Preferred Shares should be classified as mezzanine equity in the consolidated balance sheets because they were redeemable at the holders' option any time after a certain date and were contingently redeemable upon the occurrence of certain liquidation events outside of our control. As holders of the series B-2 Preferred Shares who exercise the redemption rights are allowed to request us to issue a convertible note if our assets or funds legally available for redemption are insufficient, the host contract is considered to be a debt host.

As discussed below, the conversion features and the call option shall be separately accounted for as liabilities, which are initially measured at fair value, and the initial carrying value for series B-2 preferred shares recorded in mezzanine equity is allocated on a residual basis. The mezzanine equity component is accreted to the redemption value of the series B-2 preferred shares.

We have determined that conversion feature embedded in the series B-2 preferred shares is required to be bifurcated and accounted for as a derivative liability. The conversion feature is an equity instrument as it results in conversion of preferred shares into equity shares. Therefore, this feature is not clearly and closely related to the debt host. In addition, under the terms of the liquidation preference, in the occurrence of a liquidation or a deemed liquidation, the holders of the series B-2 preferred shares are entitled to receive the higher of (a) the sum of (i) 100% of the series B-2 issue price, and (ii) any and all accrued or declared but unpaid dividends on such series B-2 preferred shares or (b) the pro-rata share of the distributions of us available to all holders of ordinary shares on an as-converted basis. Therefore, the holder will receive the greater of a fixed amount or the if-converted value. As a result, the conversion value may be realized in cash upon a liquidation or deemed liquidation, and therefore the net settlement criteria is met for the conversion feature. So the conversion feature meets the definition of a derivative and would be classified as a liability and measured at fair value at the end of each reporting period.

In addition, we have also determined that the call option is recorded as an investor option liability. In accordance with ASC Subtopic 815-10, the option is deemed legally detachable and separately exercisable from the preferred shares and, thus, accounted for as a freestanding instrument. Furthermore, as the number of shares to be purchased by Tencent to reach 50.10% voting interest in us on a fully diluted basis is not fixed, the call option is not considered indexed to our own stock. We have considered that the fair value of the investor option liability is minimal as the exercise price of the call option is the fair market price. Therefore, no balance of the call option was recognized on March 8, 2018, and for the year ended December 31, 2018, no gain (loss) arising from the change in fair value of investor option liability was recognized in our consolidated statements of comprehensive loss.

Upon the completion of our initial public offering, each series B-2 preferred share was automatically converted into one Class B ordinary share.

Accounting of modification of the series A preferred shares

We adopted a dual voting structure on our shares concurrent with the transaction and certain series A preferred shares were designated as low vote shares. Considering the facts that the dual voting structure does not provide any means for the high vote shares to monetize or obtain economic benefits from such rights over the other shareholders and the creation of the dual voting structure does not change the position that Tencent controls and JOYY has significant influence over us, we believed that the wealth transfer among different class of preferred shareholders and ordinary shareholders as a result of the creation of the dual voting structure is minimal and does not need to be accounted for.

Prior to the issuance of series B-2 preferred shares, under the terms of the liquidation preferences, holders of the series A preferred shares would be entitled to receive an amount equal to the sum of (i) 100% of the series A issue price, and (ii) any and all accrued or declared but unpaid dividends on such series A preferred shares upon a liquidation or deemed liquidation. Concurrent with the issuance of the series B-2 preferred shares, the liquidation payment of the series A preferred shares were modified to align with that of series B-2 preferred shares, which is that, the holders of series A preferred shares would receive an amount at the higher of (a) the sum of (i) 100% of the series A issue price, and (ii) any and all accrued or declared but unpaid dividends on such series A preferred shares or (b) the pro-rata share of the distributions of us available to all holders of ordinary shares on an as-converted basis in a liquidation or deemed liquidation.

Prior to the modification, there was no net settlement mechanism of the conversion feature of series A preferred shares and therefore the conversion feature did not meet the definition of a derivative liability and was not bifurcated and accounted for separately. After the issuance of series B-2 preferred shares, the modification to the payment under liquidation preference of series A preferred shares provided a net settlement mechanism to the conversion feature embedded. As detailed in the analysis of the series B-2 preferred shares above, we have considered that the conversion feature of the modified series A preferred shares meets the definition of a derivative liability and should be bifurcated and accounted separately from the host contract post modification. As the host contract of the series A preferred shares has been significantly changed by providing net settlement mechanism for the conversion rights, we have concluded that the modification to series A preferred shares should be accounted for as an extinguishment.

Upon the modification of series A preferred shares and prior to our initial public offering, the difference between the fair value of the modified series A preferred shares and the carrying value of series A preferred shares on the modification date should be recognized as a deemed dividend against retained earnings, or in the absence of retained earnings, by charges against additional paid-in capital. Once additional paid-in capital has been exhausted, additional charges are recorded by increasing the accumulated deficit of us. As discussed above, the conversion feature shall be separately accounted for as a derivative liability at fair value, and the carrying value for the modified series A preferred shares recorded in mezzanine equity is allocated on a residual basis. The conversion feature is remeasured at fair value at each subsequent reporting period with changes in fair value recognized in our consolidated statements of comprehensive loss. The mezzanine equity component is accreted to the redemption value of the series A preferred shares.

Upon the completion of our initial public offering, each series A-1 preferred share and series A-2 preferred share were automatically converted into one Class A ordinary share and Class B ordinary share, respectively. As a result, 17,647,058 Class A ordinary shares and 4,411,765 Class B ordinary shares were issued, respectively, and the balance of series A-1 preferred shares and series A-2 preferred shares was transferred to Class A ordinary shares and Class B ordinary shares and additional paid-in capital on that date, respectively.

In determining the fair value of these preferred shares, we have adopted the equity allocation model. For purposes of determining the conversion features of series A preferred shares and series B-2 preferred shares as of March 8, 2018 and May 10, 2018, we have re-performed the equity allocation model for series A preferred shares and series B-2 preferred shares in scenarios assuming the conversion feature is removed, the difference between the with embedded conversion features scenario and the without embedded conversion features scenario is considered to be value of the conversion features of the series A preferred shares and series B-2 preferred shares. We assumed the series A preferred shares and series B-2 preferred shares would not be converted to common shares in neither the initial public offering scenario, the liquidation scenario nor the redemption scenario. Such approach involves certain significant estimates which are as follows:

Valuation Date	March 8, 2018	May 10, 2018
Volatility	50%	50%
Risk-free rate (3 months)	1.66%	1.58%
Risk-free rate (4 years)	2.52%	2.46%
Dividend yield	0%	0%

New leases accounting standard adopted by us

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (Topic 842) “Leases”. Topic 842 supersedes the lease requirements in Accounting Standards Codification (ASC) Topic 840, “Leases”. Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. We adopted the new standard using the optional transition method beginning January 1, 2019. As permitted under the transition guidance, we carried forward the assessment of whether the existing contracts contain or are leases, classification of the leases and remaining lease terms. RMB92,075 of lease assets and RMB91,654 of liabilities were recognized on the balance sheet upon adoption as of January 1, 2019.

Adoption of ASU 2018-07

We adopted ASU 2018-07, Compensation-Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting (“ASU 2018-07”) on January 1, 2019. The guidance aligns the accounting for non-employee equity based awards with the accounting for employee equity-based awards, and requires equity-classified share-based payment awards issued to non-employees to be measured based on the grant date price, rather than remeasure the awards through the performance completion date. We remeasured equity-classified awards for which a measurement date has not been established through a cumulative-effect adjustment to retained earnings as of January 1, 2019. Since the awards were measured at fair value as of December 31, 2018 prior to the adoption, the cumulative-effect adjustment arising from the adoption was immaterial.

Recently Issued Accounting Pronouncements

A list of recently issued accounting pronouncements that are relevant to us is included in “Principal accounting policies—(cc) Recently issued accounting pronouncements” of our audited consolidated financial statements included elsewhere in this annual report.

Impact of Foreign Currency Fluctuation

See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Fluctuations in exchange rates could have a material adverse effect on our results of operations and the value of your investment." and "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Foreign Exchange Risk."

Impact of Governmental Policies

See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China" and "Item 4. Information on the Company—B. Business Overview—Government Regulations."

B. Liquidity and Capital Resources

Our principal sources of liquidity have been cash generated from operating activities, cash generated by financing activities and net funding provided by JOYY. In March 2018, we completed our series B financing with Linen Investment Limited and raised US$461.6 million. In May 2018, we raised from our initial public offering US$190.1 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us. In April 2019, we raised from our public offering US$313.8 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us. As of December 31, 2017, 2018 and 2019, we had RMB442.5 million, RMB709.0 million, and RMB1,113.2 million (US$159.9 million), respectively, in cash and cash equivalents; RMB593.2 million, RMB4,983.8 million and RMB6,743.4 million (US$968.6 million), respectively, in short term deposits; and nil, RMB300.2 million and RMB2,219.5 million (US$318.8 million), respectively, in short term investments. Our cash and cash equivalents consist primarily of demand deposits placed with banks. Our short-term deposits consist primarily of time deposits placed with banks with original maturities of more than three months but less than one year. Our short-term investments primarily represent structured deposits with maturities of less than one year.

We believe that our current cash and cash equivalents and our anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures for the 12 months following the date of this annual report. As of the date of this annual report, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on our liquidity or capital resources or that would cause reported financial information to not necessarily be indicative of future financial condition. We may, however, decide to enhance our liquidity position or increase our cash reserve for future investments or operations through additional capital and finance funding. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations.

As of December 31, 2019, most of our cash, cash equivalents, short-term deposits and short-term investments were held by our wholly owned subsidiaries in offshore accounts. Although we consolidate the results of our variable interest entity and its subsidiaries, we only have access to the assets or earnings of our variable interest entity and its subsidiaries through our contractual arrangements with our variable interest entity and its shareholders. See "Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Guangzhou Huya." For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see "—Holding Company Structure."

A majority of our future revenues are likely to continue to be in the form of Renminbi. Under existing PRC foreign exchange regulations, Renminbi may be converted into foreign exchange for current account items, including profit distributions, interest payments and trade-related and service-related foreign exchange transactions.

Our PRC subsidiary may convert Renminbi amounts that it generates in its own business activities, including technical consulting and related service fees pursuant to its contracts with our variable interest entity, as well as dividends it receives from its own subsidiaries, into foreign exchange and pay them to its non-PRC parent companies in the form of dividends. However, current PRC regulations permit our PRC subsidiary to pay dividends to us only out of its accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. Our PRC subsidiary is required to set aside at least 10% of its after-tax profits after making up previous years' accumulated losses each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Furthermore, capital account transactions, which include foreign direct investment and loans, must be approved by and/or registered with SAFE and its local branches. The total amount of loans we can make to our PRC subsidiary cannot exceed statutory limits and must be registered with the local counterpart of SAFE. The statutory limit for the total amount of foreign debts of a foreign-invested company is the difference between the amount of total investment as approved by the MOFCOM or its local counterpart and the amount of registered capital of such foreign-invested company.

The following table sets forth a summary of our cash flows for the years indicated.

	For the year ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in thousands)			
Summary Consolidated Cash Flow Data:				
Net cash provided by operating activities	242,444	717,461	1,945,414	279,439
Net cash used in investing activities	(559,561)	(4,567,452)	(3,684,971)	(529,314)
Net cash provided by financing activities	774,448	4,126,861	2,133,651	306,480
Net increase in cash and cash equivalents	457,331	276,870	394,094	56,605
Cash and cash equivalents at the beginning of the year	6,187	442,532	709,019	101,844
Effect of exchange rate changes on cash and cash equivalents	(20,986)	(10,383)	11,472	1,651
Cash and cash equivalents at the end of the year	442,532	709,019	1,114,585	160,100

Operating Activities

Net cash provided by operating activities was RMB1,945.4 million (US$279.4 million) in 2019. In 2019, the difference between our net cash provided by operating activities and our net income attributable to HUYA Inc. of RMB468.2 million (US$67.2 million) was primarily due to an increase of RMB607.3 million (US$87.2 million) in accrued liabilities and other current liabilities as a result of an increase in accrued revenue sharing fees, an increase of RMB409.8 million (US$58.9 million) in deferred revenue due to our business growth, and an decrease in amounts due from related parties of RMB186.9 million (US$26.8 million) primarily due to decrease in related party transactions with JOYY, partially offset by an increase in prepayments and other assets of RMB115.4 million (US$16.6 million) due to increases in prepayments and deposits to vendors and content providers.

Net cash provided by operating activities was RMB717.5 million in 2018. In 2018, the difference between our net cash provided by operating activities and our net loss attributable to HUYA Inc. of RMB1,937.7 million was primarily due to a non-cash item adjustment of RMB2,285.2 million in fair value loss on derivative liabilities, an increase of RMB428.7 million in accrued liabilities and other current liabilities as a result of an increase in accrued revenue sharing fees, partially offset by an increase in prepayments and other assets of RMB301.7 million due to increases in prepayments and deposits to vendors and content providers as well as interests receivable, an increase in amounts due from related parties of RMB132.6 million, and a non-cash item adjustment of RMB113.3 million in share of income in equity method investments, net of income taxes.

Net cash provided by operating activities was RMB242.4 million in 2017. In 2017, the difference between our net cash provided by operating activities and our net loss attributable to HUYA Inc. of RMB81.0 million was primarily due to an increase of RMB220.2 million in deferred revenue due to our business growth, an increase of RMB174.6 million in accrued liabilities and other current liabilities as a result of an increase in accrued revenue sharing fees, a non-cash item adjustment of RMB40.1 million in share-based compensation, an increase of RMB8.2 million in amounts due to related parties as a result of increased support services provided by JOYY, partially offset by an increase of RMB104.2 million in amounts due from related parties. The increase in amounts due from related parties was primarily attributable to the cash collected by JOYY as a payment channel for us but not yet remitted to us. We recorded positive operating cash flow in 2017, primarily due to our strong revenue growth and improved operating efficiency.

Investing Activities

Net cash used in investing activities was RMB3,685.0 million (US$529.3 million) in 2019, which was primarily attributable to cash paid for short-term deposits of RMB7,166.7 million (US$1,029.4 million) and short-term investments of RMB3,706.8 million (US$532.4 million), partially offset by maturities of short-term deposits of RMB5,553.8 million (US$797.7 million) and short-term investments of RMB1,808.9 million (US$259.8 million).

Net cash used in investing activities was RMB4,567.5 million in 2018, which was primarily attributable to cash paid for short-term deposits of RMB5,781.9 million, partially offset by maturities of short-term deposits of RMB1,775.8 million.

Net cash used in investing activities was RMB559.6 million in 2017, which was primarily attributable to net placements of short-term deposits of RMB496.7 million.

Financing Activities

Net cash provided by financing activities was RMB2,133.7 million (US$306.5 million) in 2019, which was primarily attributable to RMB2,110.7 million (US$303.2 million) in proceeds from issuance of ordinary shares in our follow-on public offering and RMB22.9 million (US$3.3 million) in proceeds from exercise of vested share options.

Net cash provided by financing activities was RMB4,126.9 million in 2018, which was primarily attributable to proceeds from the issuance of series B preferred shares of RMB2,919.1 million and proceeds from issuance of ordinary shares in our initial public offering of RMB1,207.7 million.

Net cash provided by financing activities was RMB774.4 million in 2017, which was attributable to RMB509.5 million in proceeds from our series A financing, RMB164.9 million of investment in us from JOYY and capital injection of RMB100.0 million from a variable interest entity of JOYY.

Capital Expenditures

We made capital expenditures of RMB43.4 million, RMB127.4 million and RMB71.4 million (US$10.3 million) in 2017, 2018 and 2019, respectively. In these periods, our capital expenditures were mainly used for leasehold improvement, purchasing of servers and other IT infrastructures, as well as for obtaining a license. We will continue to make capital expenditures to meet the expected growth of our business.

Holding Company Structure

HUYA Inc. is a holding company with no material operations of its own. We conduct our operations primarily through our PRC subsidiary, our variable interest entity and its subsidiaries in China. As a result, HUYA Inc.'s ability to pay dividends depends upon dividends paid by our PRC subsidiary. If our existing PRC subsidiary or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiary in China is permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiary and our variable interest entity and its subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, our wholly foreign-owned subsidiary in China may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at its discretion, and our variable interest entity may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our PRC subsidiary has not paid dividends and will not be able to pay dividends until it generates accumulated profits and meet the requirements for statutory reserve funds.

The table below sets forth the respective revenues contribution and assets of HUYA Inc. and our wholly-owned subsidiaries and our various interest entity and its subsidiaries as of the dates and for the years indicated:

	Net revenues[1] For the year ended December 31,			Total assets[1] As of December 31,	
	2017	2018	2019	2018	2019
HUYA Inc. and its wholly-owned subsidiaries	0.3%	0.1%	1.0%	71.2%	76.5%
Variable interest entity and its subsidiaries	99.7%	99.9%	99.0%	28.8%	23.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Note:

(1) The percentages exclude the inter-company transactions and balances between HUYA Inc. and its wholly-owned subsidiaries and variable interest entity and its subsidiaries.

C. Research and Development, Patents and Licenses, etc.

Technology

The success of our business is dependent on our strong technological capabilities that support us in delivering superior user experience, increasing operational efficiency and enabling innovations. Our technology platform has been designed for reliability, scalability and flexibility.

- *AI and big data analytics*. AI is used extensively in various aspects of our operations and is particularly useful for reviewing and screening contents through recognizing and analyzing patterns. The massive volume of data, such as viewing history, user interactions and purchase preference, enable us to further optimize our AI technology and enhance its accuracy. As the quantity and variety of content and user interactions continue to grow, AI capability has become increasingly important for us to control our operating costs and enhance our user experience by avoiding extensive manual review. Our big data analytics capability enables us to build a comprehensive interest profile for each user by assigning interest tags to them. Combined with our AI capability, these interest profiles allow us to personalize user interfaces and recommend content to our users.
- *Live streaming technologies*. Our state-of-the art audio and video coding and streaming technologies enable low-latency and low-loss rates in delivering voice and video data on our platform, even with weak internet connection, which provides our users with superior viewing experience. Audio and video technologies have been our main focus since our inception. For instance, we offer stable 8-12M pixels blue-ray quality live streaming.
- *Servers and other infrastructure*. We have deployed hybrid cloud computing technology in our server system. We employ back-end architecture that enables smooth and expedient upgrades of our platform software infrastructure. Our advanced peer-to-peer streaming technologies help us manage bandwidth utilization more efficiently amid fast growing user base and constantly improving streaming video quality, which further enhanced scalability.

In the year ended December 31, 2017, 2018 and 2019, our research and development expenditures were RMB170.2 million, RMB265.2 million and RMB508.7 million (US$73.1 million), representing 7.8%, 5.7% and 6.1% of our total net revenues for the years ended December 31, 2017, 2018 and 2019, respectively. Our research and development expenses consist primarily of salaries, welfare and share-based compensation for research and development personnel.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2017 to December 31, 2019 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet financial guarantees or other off-balance sheet commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations by specified categories as of December 31, 2019.

	Payment due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(in RMB thousands)				
Operating Lease Obligations[1]	135,010	43,591	65,432	25,987	—

Note:

(1) Represents our non-cancellable operating leases and property management fees for offices expiring on different dates.

Rental expenses under operating lease for 2017, 2018 and 2019 were RMB12.8 million, RMB20.8 million and RMB49.7 million (US$7.1 million), respectively.

Other than the contractual obligations set forth above, we do not have any significant capital and other commitments, long-term obligations, or guarantees as of December 31, 2019.

G. Safe Harbor

See "Forward-Looking Statements."

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

Directors and Executive Officers	Age	Position/Title
Lingdong Huang	43	Chairman of Board of Directors
Rongjie Dong	43	Director, Chief Executive Officer
David Xueling Li	45	Director
Zhi Cheng	37	Director
Hai Tao Pu	49	Director
Guang Xu	37	Director
Lei Zheng	43	Director
Hongqiang Zhao	43	Independent Director
Xiaopeng He	42	Independent Director
Catherine Xiaozheng Liu	43	Chief Financial Officer
Ligao Lai	41	Chief Technology Officer

Mr. Lingdong Huang has been the chairman of our board of directors since April 2020. Mr. Huang currently serves as a general manager at Tencent's interactive entertainment group and as a director of TJ Sports Culture Development (Shanghai) Co., Ltd. Prior to joining Tencent in 2010, Mr. Huang served on various positions, including as vice president, at The9 Limited (Nasdaq: NCTY) from 1999 to 2010. Mr. Huang received his bachelor's degree in informatics from Shanghai University in 1999.

Mr. Rongjie Dong has been our chief executive officer since August 2016 and our director since March 2017. From April 2013 to August 2016, Mr. Dong served as executive vice president of JOYY Inc. (Nasdaq:YY). From 2000 to 2006, Mr. Dong served as product manager and head of the technology department of 163.com. Mr. Dong received his bachelor's degree in computer hardware from Beijing Information Engineering Institute (currently known as Beijing Information Science and Technology University).

Mr. David Xueling Li has been serving as our director since July 2017. Mr. Li is also a co-founder, chairman and chief executive officer of JOYY Inc. (Nasdaq:YY). Mr. Li has been in charge of the business operations of JOYY as the principal executive officer since its inception in April 2005. Before founding JOYY in April 2005, Mr. Li worked at NetEase, Inc. (Nasdaq: NTES) from July 2003 to April 2005 and served as its chief editor. In 2000, Mr. Li founded CFP.cn, a website that provided a copyright trading platform for journalists and amateur photographers. Mr. Li received a bachelor's degree in philosophy from Renmin University of China.

Mr. Zhi Cheng has been serving as our director since April 2020. Mr. Cheng currently serves as the assistant general manager at Tencent. Prior to joining Tencent in 2014, Mr. Cheng served as the project leader at The Boston Consulting Group. Mr. Cheng received his bachelor's degree in computer science and economics and master's degree in computer science from Peking University in China.

Mr. Hai Tao Pu has been serving as our director since April 2020. Mr. Pu currently serves as a general manager at Tencent and a member of the Listing Committee of the Hong Kong Stock Exchange and General Committee of the Chamber of Hong Kong Listed Companies. Prior to joining Tencent in 2010, Mr. Pu practiced corporate and M&A, capital markets and commercial law at Slaughter and May and Mallesons Stephen Jaques. Mr. Pu received his Juris Doctor from the Melbourne University Law School in Australia.

Mr. Guang Xu has been serving as our director since April 2020. Mr. Xu currently serves as a general manager at Tencent's interactive entertainment group. Prior to joining Tencent in 2006, Mr. Xu served in the game planning department at Shenzhen Yamido Technology Co., Ltd. from 2004 to 2006. Mr. Xu received his bachelor's degree in electronic information engineering from Huazhong University of Science and Technology in China.

Mr. Lei Zheng has been serving as our director since March 2020. Mr. Zheng currently also serves as the general manager of the user platform department of Tencent. Prior to that position, Mr. Zheng served as the assistant general manager of the interactive-entertainment-operation of Tencent from 2012 to 2018. Mr. Zheng received his bachelor's degree in chemical engineering from Tsinghua University in China.

Mr. Hongqiang Zhao has been serving as our independent director since May 2018. Mr. Zhao has served as the chief financial officer of BaiRong Yunchuang Technology Co. Ltd., or BaiRong, since December 2015. Prior to joining BaiRong, Mr. Zhao was the CFO of NetEase's e-commerce business from November 2014 to December 2015, and the vice president of finance at SouFun Holdings Limited from December 2012 to October 2014. From March 2011 to December 2012, Mr. Zhao worked in New York as the director of financial analysis for Viacom Inc. (Nasdaq: VIAB), a leading global entertainment content company. Between February 2009 and July 2011, Mr. Zhao served as an assistant chief auditor at the PCAOB, a regulatory oversight agency under the SEC of the United States. Prior to that, Mr. Zhao was a manager at KPMG LLP in Washington D.C., providing professional services to internet, telecommunication and entertainment companies for more than eight years since August 2000. Mr. Zhao received his bachelor's degree in accounting from Tsinghua University and his master's degree in accountancy from George Washington University.

Mr. Xiaopeng He has been serving as our independent director since May 2018. In 2014, Mr. He co-founded Xpeng Motors, a Chinese internet-based vehicle provider. Mr. He has served as the chairmen of Xpeng Motors since August 2017. From August 2014 to August 2017, Mr. He assumed several positions at Alibaba Group (NYSE:BABA) since Alibaba's acquisition of UCWeb Inc., a Chinese mobile internet company co-founded by Mr. He in 2014. Mr. He received his bachelor's degree in computer science from South China University of Technology.

Ms. Catherine Xiaozheng Liu has been our chief financial officer since December 2019. Ms. Liu served as chief financial officer of Yixin Group (HKSE: 02858) from April 2017 to November 2019. Between September 2015 and April 2017, Ms. Liu was chief strategy officer of Qihoo 360 Technology Co. Ltd, previously listed on the New York Stock Exchange (NYSE: QIHU) and now privatized. Prior to that, Ms. Liu was the head of China Technology Investment Banking Division at Credit Suisse (Hong Kong) Limited, where she worked from June 2011 to September 2015. Prior to that, she was the vice president in China Investment Banking Division at Citigroup Global Markets Asia Limited, where she worked from October 2009 to June 2011. Ms. Liu received her bachelor's degree in finance from Nanjing University, master's degree in finance from Renmin University of China and master's degree in management from University of California, Los Angeles.

Mr. Ligao Lai has been our chief technology officer since January 2017. Mr. Lai has approximately 20 years of experience in technology and software development. From February 2011 to December 2016, Mr. Lai served as a vice general manager and technology general manager at JOYY. From March 2004 to February 2011, Mr. Lai worked at the game department of Kingsoft (SEHK: 3888), mainly in charge of the research and development of online games. From July 1999 to March 2004, Mr. Lai worked as a developer and project manager at Kingsoft, responsible for the development of WPS Office software. Mr. Lai received a bachelor's degree in electronics and information engineering from Wuyi University.

B. Compensation of Directors and Executive Officers

For the fiscal year ended December 31, 2019, the compensation to our executive officers and directors in cash by us amounted to an aggregate of RMB18.7 million (US$2.7 million). We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our PRC subsidiary, our variable interest entity and its subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund. For share incentive grants to our officers and directors, see "—B. Compensation of Directors and Executive Officers—Share Incentive Plan."

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, without advance notice or remuneration, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. We may also terminate an executive officer's employment without cause upon three-month or mutually agreed advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as expressly required by applicable law of the jurisdiction where the executive officer is based. The executive officer may resign at any time with a three-month or mutually agreed advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for one year following the last date of employment. Specifically, each executive officer has agreed not to (i) approach our suppliers, clients, customers or contacts or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors, without our express consent; or (iii) seek directly or indirectly, to solicit the services of, or hire or engage any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination, without our express consent.

We have entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we may agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

Share Incentive Plan

In July 2017, our board of directors approved the 2017 Share Incentive Plan, as amended and restated in March 2018, to provide incentives to our employees, directors and consultants and promote the success of our business. The maximum number of Class A ordinary shares that may be issued under the Amended and Restated 2017 Plan is 28,394,117. As of April 3, 2020, options to purchase 15,199,661 Class A ordinary shares are outstanding, and 6,821,147 restricted share units are outstanding.

The following paragraphs describe the principal terms of the Amended and Restated 2017 Plan.

Types of Awards. The Amended and Restated 2017 Plan permits the awards of options, restricted share units or any other type of awards approved by the committee or the board of directors.

Plan Administration. The Amended and Restated 2017 Plan is administered by our board of directors or by a committee of one or more members of our boards to whom our board shall delegate the authority to grant or amend awards to any eligible persons other than any of members of the committee serving as the plan administrator. The plan administrator has the power and authority to determine the persons who are eligible to receive awards, as well as other terms and conditions of awards. Any grant or amendment of awards to any committee member serving as the plan administrator shall then require an affirmative vote of a majority of the board members who are not on the committee serving as the plan administrator.

Award Agreement. Any award granted under the Amended and Restated 2017 Plan is evidenced by an award agreement that sets forth terms, conditions and limitations for such award, which may include the number of shares subject to the award awarded, the exercise price, the provisions applicable in the event of the grantee's employment or service terminates, among other provisions. The plan administrator may amend the terms of any award, prospectively or retroactively; provided that no such amendment shall impair the rights of any participant without his or her consent.

Eligibility. We may grant awards to directors, officers, employees and consultants of our company or any of our subsidiaries.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Exercise of options. Once all the preconditions provided in the relevant award agreements are met, a participant may exercise options in whole or in part by giving written notice of exercise to us specifying information such as the number of shares to be purchased, as well as making full payment of the aggregate exercise price of the shares so purchased.

Term of options. The plan administrator determines the term of each option and provides it in the relevant award agreement, but no option shall be exercisable more than five years after the grant date.

Transfer Restrictions. Except under the laws of descent and distribution or otherwise permitted by the plan administrator, the participant will not be permitted to sell, transfer, pledge or assign any awards. In principle, all awards shall be exercisable only by the participants. However, a participant may also transfer one or more awards to a trust controlled by him or her for estate planning purposes.

Termination and amendment of the Amended and Restated 2017 Plan. Our board of directors may amend, alter or discontinue the Amended and Restated 2017 Plan, but no amendment, alteration or discontinuation shall be made if such amendment, alteration or discontinuation would impair the rights of a participant under any award without such participant's consent.

The shares reserved and to be issued under our Amended and Restated 2017 Share Plan have been registered on the Form S-8 on September 14, 2018.

The following table summarizes, as of April 3, 2020, the outstanding options granted under the Amended and Restated 2017 Plan to our directors, executive officers and other grantees.

Name	Class A Ordinary Shares Underlying Options Awarded	Exercise Price (US$/Share)	Date of Grant	Date of Expiration
Rongjie Dong	5,647,700	US$2.55	August 9, 2017	August 8, 2027
David Xueling Li	5,882,353	US$2.55	March 15, 2018	March 14, 2028
Ligao Lai	*	US$2.55	August 9, 2017	August 8, 2027
Other individuals as a group	2,593,608	US$2.53	August 9, 2017, March 15, 2018 and July 1, 2018	August 8, 2027, March 14, 2028 and June 30, 2028

Note:

* Less than 1% of our total outstanding shares.

The following table summarizes, as of April 3, 2020, the outstanding restricted share units granted under the Amended and Restated 2017 Plan to our directors, executive officers and other grantees.

Name	Class A Ordinary Shares Underlying Restricted Share Units Awarded	Date of Grant	Date of Expiration
Rongjie Dong	*	March 31, 2018	March 30, 2028
Catherine Xiaozheng Liu	*	December 9, 2019	December 8, 2029
Other individuals as a group	5,446,147	March 31, 2018 to February 15,2020	March 30, 2028 to February 14, 2030

Note:

* Less than 1% of our total outstanding shares.

C. Board Practices

Board of Directors

Our board of directors consists of nine directors. Pursuant to our memorandum and articles of association, Tencent has the right to appoint at least one director as long as Tencent holds 20% of our issued share capital on a fully diluted basis. Notwithstanding the foregoing, any holder of a majority of the voting power in us has the right to appoint up to the lowest number of directors that (x) constitutes a majority of the directors and (y) is no less than proportionate to such holder's voting power in us. A director is not required to hold any shares in our company to qualify to serve as a director. A director may vote with respect to any contract, proposed contract or arrangement notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered, provided (a) such director, if his interest (whether direct or indirect) in such contract or arrangement is material, has declared the nature of his interest at the earliest meeting of the board at which it is practicable for him to do so, either specifically or by way of a general notice and (b) if such contract or arrangement is a transaction with a related party, such transaction has been approved by the audit committee. The directors may exercise all the powers of the company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

Committees of the Board of Directors

We have established three committees under the board of directors: an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

Audit Committee. Our audit committee consists of Mr. Hongqiang Zhao and Mr. Xiaopeng He. Mr. Hongqiang Zhao is the chairman of our audit committee. We have determined that Mr. Hongqiang Zhao and Mr. Xiaopeng He satisfy the "independence" requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange and Rule 10A-3 under the Securities Exchange Act of 1934. We have determined that Mr. Hongqiang Zhao qualifies as an "audit committee financial expert." The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;

- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee. Our compensation committee consists of Mr. Hongqiang Zhao and Mr. Xiaopeng He. Mr. Xiaopeng He is the chairman of our compensation committee. We have determined that Mr. Hongqiang Zhao and Mr. Xiaopeng He satisfy the "independence" requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements, and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person's independence from management.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Mr. Hongqiang Zhao, Mr. Xiaopeng He and Mr. Rongjie Dong. Mr. Hongqiang Zhao is the chairperson of our nominating and corporate governance committee. Mr. Hongqiang Zhao and Mr. Xiaopeng He satisfy the "independence" requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board;
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations; and
- making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

Duties of Directors

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly and a duty to act in what they consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also owe to our company a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time, and the class rights vested thereunder in the holders of the shares. Our company has the right to seek damages if a duty owed by our directors is breached. A shareholder may in certain limited exceptional circumstances have the right to seek damages in our name if a duty owed by our directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office and its responsibilities of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registration of such shares in our share register.

Terms of Directors and Officers

Tencent has the right to appoint at least one director as long as Tencent holds 20% of our issued share capital on a fully diluted basis. Notwithstanding the foregoing, any holder of a majority of the voting power in us should have the right to appoint up to the lowest number of directors that (x) constitutes a majority of the directors and (y) is no less than proportionate to such holder's voting power in us. Subject to the foregoing, our directors may be elected by a resolution of our board of directors, or by an ordinary resolution of our shareholders. Our directors are not subject to a term of office (unless otherwise specified in a written agreement between the Company and the relevant director) and hold office until such time as they are removed from office by ordinary resolution of the shareholders. A director appointed by Tencent or a holder of a majority of the voting power in us may be removed from the board, either for or without cause, only upon the vote or written consent of Tencent or the relevant holder of a majority of the voting power in us then entitled to appoint such director pursuant to our memorandum and articles of association. A director will cease to be a director if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found by our company to be or becomes of unsound mind, (iii) resigns his office by notice in writing to the company, (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our board of directors resolve that his office be vacated; (v) is prohibited by law from being a director; or (vi) is removed from office pursuant to any other provision of our memorandum and articles of association. Our officers are elected by and serve at the discretion of the board of directors.

D. Employees

We had 1,864 employees as of December 31, 2019. As of December 31, 2019, 81.0%, 11.6% and 7.4% of our employees were located in Guangzhou, Zhuhai and other cities, respectively. The following table sets forth the numbers of our employees categorized by function as of December 31, 2019.

	As of December 31, 2019	
	Number	%
Customer services and operations	672	36.1
Research and development	860	46.1
Sales and marketing	147	7.9
General and administrative	185	9.9
Total	1,864	100.0

We participate in various employee social security plans that are organized by municipal and provincial governments, including housing, pension, medical insurance and unemployment insurance, as required by laws and regulations in China. We are required under Chinese law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

We typically enter into standard employment, confidentiality and non-compete agreements with our senior management and core personnel. These contracts include a standard non-compete covenant that prohibits the employee from competing with us, directly or indirectly, during his or her employment and for two years after the termination of his or her employment, provided that we pay compensation during the restriction period in accordance with PRC laws and regulations in this regard.

We believe that we maintain a good working relationship with our employees, and we have not experienced any labor disputes. None of our employees are represented by labor unions.

E. Share Ownership

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our Class A and Class B ordinary shares as of April 3, 2020:

- each of our directors and executive officers; and
- each person known to us to own beneficially 5% or more of our total outstanding ordinary shares.

The calculations in the table below are based on 219,492,635 ordinary shares outstanding as of April 3, 2020, comprising of 67,135,314 Class A ordinary shares (excluding 3,904,423 Class A ordinary shares issued to our depositary bank for bulk issuance of ADSs reserved for issuances upon the exercise or vesting of awards under our share incentive plan) and 152,357,321 Class B ordinary shares.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, subject to certain conditions. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Ordinary Shares Beneficially Owned				
	Class A ordinary Shares(†)	Class B ordinary Shares(††)	Total ordinary shares on an as-converted basis	% of total ordinary shares on an as converted basis	% of aggregate voting power (†††)
Directors and Executive Officers:**					
Lingdong Huang	—	—	—	—	—
Rongjie Dong[(1)]	8,231,919	2,970,804	11,202,723	5.0	2.0
David Xueling Li[(2)]	7,885,514	—	7,885,514	3.5	0.1
Zhi Cheng	—	—	—	—	—
Hai Tao Pu[(3)]	—	—	—	—	—
Guang Xu	—	—	—	—	—
Lei Zheng	—	—	—	—	—
Hongqiang Zhao[(4)]	—	—	—	—	—
Xiaopeng He[(5)]	—	—	—	—	—
Catherine Xiaozheng Liu	—	—	—	—	—
Ligao Lai	*	—	*	*	*
All directors and executive officers as a group	17,193,433	2,970,804	20,164,237	8.9	2.1
Principal Shareholders:					
Tencent Holdings Limited[(6)]	—	81,012,054	81,012,054	36.9	50.9
JOYY[(7)]	—	68,374,463	68,374,463	31.2	43.0
Capital Research and Management Company[(8)]	12,340,227	—	12,340,227	5.6	0.8

Notes:

* Less than 1% of total outstanding ordinary shares.

** Except for Mr. Lingdong Huang, Mr. Zhi Cheng, Mr. Guang Xu and Mr. Lei Zheng, and as indicated otherwise below, the business address for our directors and executive officers listed in the table is Building A3, E-Park, 280 Hanxi Road, Panyu District, Guangzhou 511446, the People's Republic of China. The business address of Mr. Lingdong Huang, Mr. Zhi Cheng, Mr. Guang Xu and Mr. Lei Zheng is Building C, Kexing Science Park, Nanshan District, Shenzhen, the People's Republic of China.

† For each person and group included in this column, percentage ownership is calculated by dividing the number of Class A ordinary shares beneficially owned by such person or group, including Class A ordinary shares that such person or group has the right to acquire within 60 days of April 3, 2020, by the sum of the total number of Class A ordinary shares outstanding as of April 3, 2020 and the number of Class A ordinary shares underlying the options held by such person or group that are exercisable within 60 days of April 3, 2020.

†† For each person and group included in this column, percentage ownership is calculated by dividing the number of Class B ordinary shares beneficially owned by such person or group, including Class B ordinary shares that such person or group has the right to acquire within 60 days of April 3, 2020, by the sum of the total number of Class B ordinary shares outstanding as of April 3, 2020 and the number of Class B ordinary shares underlying the options held by such person or group that are exercisable within 60 days of April 3, 2020.

††† For each person or group included in this column, percentage of total voting power represents voting power based on both Class A and Class B ordinary shares held by such person or group, including Class A and Class B ordinary shares that such person or group has the right to acquire within 60 days of April 3, 2020, with respect to all outstanding shares of our Class A and Class B ordinary shares as a single class. Each holder of Class A ordinary shares is entitled to one vote per Class A ordinary share. Each holder of our Class B ordinary shares is entitled to ten votes per Class B ordinary share. Our Class B ordinary shares are convertible at any time by the holder into Class A ordinary shares on a share-for-share basis.

(1) Represents (i) 2,220,804 Class B ordinary shares directly held by All Worth Limited, a British Virgin Islands company controlled by Mr. Rongjie Dong, and (ii) 750,000 Class B ordinary shares directly held by Oriental Luck International Limited, a British Virgin Islands company wholly owned by a family trust controlled by Mr. Rongjie Dong, and (iii) 6,247,700 Class A ordinary shares issuable upon the vesting of the restricted shares units and the exercise of the options within 60 days after April 3, 2020 held by Mr. Rongjie Dong, and (iv) 1,984,219 Class A ordinary shares in the form of ADSs held by All Worth Limited. The registered offices of All Worth Limited and Oriental Luck International Limited are both Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

(2) Represents (i) 223,526 Class A ordinary shares directly held by Rosy Bay Limited, a British Virgin Islands company controlled by Mr. David Xueling Li, (ii) 1,411,765 Class A ordinary shares directly held by New Wales Holdings Limited, a British Virgin Islands company wholly owned by Mr. David Xueling Li, (iii) 367,870 Class A ordinary shares directly held by Savvy Direction Limited, a British Virgin Islands company controlled by Mr. David Xueling Li, and (iv) 5,882,353 Class A ordinary shares issuable upon the exercise of options within 60 days after April 3, 2020 held by Mr. David Xueling Li. The registered offices of Rosy Bay Limited, New Wales Holdings Limited, Legend Rank Ventures Limited and Savvy Direction Limited are Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The business address of Mr. David Xueling Li is Building B-1, North Block of Wanda Plaza, No. 79 Wanbo 2nd Road, Panyu District, Guangzhou, 511442, the People's Republic of China.

(3) The business address of Mr. Hai Tao Pu is 29/F, Three Pacific Place, 1 Queen's Road East, Wanchai, Hong Kong.

(4) The business address of Mr. Hongqiang Zhao is No. 10 Furong Street, Chaoyang District, Beijing, the People's Republic of China.

(5) The business address of Mr. Xiaopeng He is No. 8 Songgang Road, Changxing Street, Cencun, Tianhe District, Guangzhou, the People's Republic of China.

(6) Represents 81,012,054 Class B ordinary shares directly held by Linen Investment Limited, as reported in a Schedule 13D jointly filed by Tencent Holdings Limited and Linen Investment Limited on April 10, 2020. Tencent Holdings Limited is a Cayman Islands company. Linen Investment Limited is a British Virgin Islands company and a direct wholly owned subsidiary of Tencent Holdings Limited. The principal business address of each of Tencent Holdings Limited and Linen Investment Limited is Level 29, Three Pacific Place, No. 1 Queen's Road East, Wanchai, Hong Kong.

(7) Represents 68,374,463 Class B ordinary shares directly held by JOYY Inc., as reported in a Schedule 13G amendment filed by JOYY Inc. on April 10, 2020. JOYY Inc. is a Cayman Islands company. The principal business address of JOYY Inc. is Building B-1, North Block of Wanda Plaza, No. 79 Wanbo 2nd Road, Nancun Town, Panyu District, Guangzhou 511442, the People's Republic of China.

(8) Represents (i) 7,746,520 Class A ordinary shares held by Capital World Investors, as reported in a Schedule 13G amendment filed by Capital World Investors on February 14, 2020 and (ii) 4,593,707 Class A ordinary shares held by Capital International Investors, as reported in a Schedule 13G filed by Capital International Investors on February 14, 2020. Capital World Investors and Capital International Investors are divisions of Capital Research and Management Company. The principal business office of Capital World Investors is located at 333 South Hope Street Los Angeles, CA 90071. The principal business office of Capital International Investors is located at 11100 Santa Monica Boulevard 16th Floor Los Angeles, CA 90025.

To our knowledge, as of April 3, 2020, a total of 65,132,153 Class A ordinary shares are held by one record holder in the United States, representing approximately 29.7% of our total outstanding shares on an as-converted basis. The holder is Deutsche Bank Trust Company Americas, the depositary of our ADS program, which holds 65,132,153 Class A ordinary shares, representing 29.7% of our total outstanding shares on an as-converted basis. None of our outstanding Class B ordinary shares are held by record holders in the United States. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

For options and restricted share units granted to our officers, directors and employees, see "—B. Compensation of Directors and Executive Officers—Share Incentive Plan."

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

See "Item 6. Directors, Senior Management and Employees—E. Share Ownership."

B. Related Party Transactions

Contractual Arrangements with Our Variable Interest Entity and Its Shareholders

PRC laws and regulations currently restrict foreign ownership and investment in value-added telecommunications services in China. As a result, we operate our relevant business through Guangzhou Huya, our variable interest entity, and its subsidiaries based on a series of contractual arrangements. For a description of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure."

Agreements and Transactions with Tencent

In 2019, we (i) received operation support services from Tencent in the amount of RMB219.4 million (US$31.5 million), (ii) purchased copyrights for live streaming from Tencent in the amount of RMB123.2 million (US$17.7 million), (iii) made payment on behalf of Tencent in the amount of RMB16.1 million (US$2.3 million), (iv) received market promotion services from Tencent in the amount of RMB12.8 million (US$1.8 million), (v) generated advertising revenue from Tencent in the amount of RMB8.0 million (US$1.2 million), (vi) had cash collected by Tencent as a game operator for us in the amount of RMB1.8 million (US$0.3 million) and (vii) shared online games revenue to Tencent as a game operator in the amount of RMB1.0 million (US$0.1 million). On April 3, 2020, Linen Investment Limited, a wholly-owned subsidiary of Tencent, executed a written acknowledgment to join certain registration rights agreement entered into and between JOYY and us, thereby obtaining the rights and obligations of JOYY in proportion to its holding of the 16,523,819 Class B ordinary shares of us that it had acquired from JOYY as if it had executed the registration rights agreement. For more information on the registration rights agreement, see "—Agreements and Transactions with JOYY—Registration rights agreement."

In 2018, we (i) received operation support services from Tencent in the amount of RMB106.5 million, (ii) purchased copyrights for live streaming from Tencent in the amount of RMB88.1 million, (iii) generated advertising revenue from Tencent in the amount of RMB14.3 million, and (iv) received market promotion services from Tencent in the amount of RMB2.2 million.

Agreements and Transactions with JOYY

Services arrangement. Before the completion of our carve-out, our business was operated under JOYY. In January 2017, Guangzhou Huya and JOYY entered into a series of services agreements, under which JOYY agreed to provide certain services to Guangzhou Huya directly related to our business, including resource, cash collection from users as a payment channel for us and purchase of services on behalf of us. The agreements are effective for the year of 2017 and have been renewed for the years of 2018 and 2019, and could be renewed once per year upon mutual agreement between Guangzhou Huya and JOYY. In relation to such services, the arrangements between JOYY and us in 2017 included JOYY's resource support amounting to RMB151.2 million, its purchase of services amounting to RMB155.2 million and its cash collection amounting to RMB2,352.5 million. In relation to such services, the arrangements between JOYY and us in 2018 included JOYY's resource support amounting to RMB44.5 million, its purchase of services amounting to RMB37.4 million and its cash collection amounting to RMB4,081.7 million. In relation to such services, the arrangements between JOYY and us in 2019 included JOYY's resource support amounting to RMB17.5 million (US$2.5 million), its purchase of services amounting to RMB22.6 million (US$3.2 million) and its cash collection amounting to RMB1,362.5 million (US$195.7 million).

Online advertising arrangement. In addition, we entered into an online advertising and marketing framework agreement with Guangzhou Huaduo in January 2017 and other online advertising and marketing agreements in our ordinary course of business. In 2017 and 2018, revenues derived from advertising services provided to JOYY amounted to RMB0.5 million and RMB2.0 million, respectively. The agreement had been renewed, and had expired on December 31, 2018.

Intellectual Property. After our carve-out, we also obtained an exclusive and royalty-free license from Guangzhou Huaduo to use 39 patents, 8 of which are under application, through the respective terms of such patents or, in the case of patent applications, through the respective application periods and terms of the patents once granted.

Non-compete agreement. On March 8, 2018, JOYY and we, through our respective PRC affiliated entities, entered into a non-compete agreement. Pursuant to this non-compete agreement, JOYY agrees not to compete with us in certain areas of our core business, for a term of four years from the date of this non-compete agreement.

Business cooperation agreement. On March 8, 2018, JOYY and we, through our respective PRC affiliated entities, entered into a business cooperation agreement. This business cooperation agreement sets out terms of our future cooperation in the areas including payment settlement, IT system licensing and broadcaster resources. The business cooperation agreement has a term of five years from January 1, 2018 to December 31, 2022, subject to automatic renewal of another year until terminated.

Registration rights agreement. On April 3, 2020, JOYY and we entered into a registration rights agreement. Under the agreement, we have granted JOYY certain registration rights, including:

- *Demand registration rights.* So long as JOYY holds 25% or more of the voting power of our outstanding shares, it has the right to request us effect a registration for their shares. We are not obligated to effect more than two demand registrations that have been declared and ordered effective.
- *Form F-3 registration rights.* If we qualify for registration on Form F-3, JOYY may request us to file a registration statement on Form F-3. We are not obligated to effect more than six registration statements on Form F-3 that have been declared and ordered effective.
- *Piggyback registration rights.* If we propose to file a registration statement for a public offering of our securities, we must afford JOYY an opportunity to participate in that offering. We have the right to terminate or withdraw any registration initiated by us under the piggyback registration rights prior to the effectiveness of such registration.

Furthermore, in 2019, we (i) had repayment from JOYY in relation to the payment on behalf of Huya's employees in the amount of RMB15.3 million (US$2.2 million), (ii) had purchase of property and equipment from JOYY in the amount of RMB0.3 million (US$0.04 million), and (iii) made payment on behalf of JOYY in the amount of RMB0.2 million (US$0.03 million).

In 2018, we (i) had cash received in connection with purchasing short-term deposits together with JOYY in the amount of RMB7.1 million, (ii) had purchase of property and equipment, primarily in the form of servers, from JOYY in relation to the carve-out, in the amount of RMB6.4 million, (iii) had repayment from JOYY in relation to the payment on behalf of Huya's employees in the amount of RMB1.2 million, and (iv) made payment on behalf of JOYY in the amount of RMB0.2 million.

Prior to the completion of our carve-out from JOYY, certain of our employees were granted awards under the 2011 share incentive scheme of JOYY. The share-based compensation expenses arising from such grants were allocated to us and recognized as share-based compensation expenses. In 2017, 2018 and 2019, such share-based compensation expenses related to JOYY's share-based awards amounted to RMB10.5 million, RMB5.8 million and RMB2.0 million (US$0.3 million), respectively.

Shareholders' Agreement

We entered into our amended and restated shareholders' agreement on March 8, 2018 with our shareholders, which consist of holders of Class A and Class B ordinary shares, series A-1 preferred shares, series A-2 preferred shares and series B-2 preferred shares.

This shareholders' agreement provides that our board of directors should consist of at least five directors, including no less than two independent directors. Tencent has the right to appoint at least one director as long as Tencent holds 20% of our issued share capital on a fully diluted basis. Notwithstanding the foregoing, any holder of a majority of the voting power in us should have the right to appoint up to the lowest number of directors that (x) constitutes a majority of the directors and (y) is no less than proportionate to such holder's voting power in us.

Under this shareholders' agreement, we have also granted certain registration rights to our preferred shareholders:

Demand registration rights

At any time after the date that is six months after the completion of our initial public offering, holders of 25% or more of voting power of the outstanding preferred shares or ordinary shares issued upon the conversion of the preferred shares have the right to request us effect a registration for their shares. Except for certain circumstances where we are entitled to defer a filing, upon receiving a notice of demand registration, we should promptly give a written notice to all other holders of our preferred shares or ordinary shares issued upon the conversion of our preferred shares, and make best efforts to register the shares requested to be registered. We are not obligated to effect more than three demand registrations that have been declared and ordered effective.

Form F-3 registration rights

Any holders of our preferred shares or ordinary shares issued upon the conversion of our preferred shares may request us to file an unlimited number of registration statements on Form F-3. We should promptly give a written notice to all other preferred shareholders, and make best efforts to effect the registration of the securities on Form F-3 within 15 days after we delivered such written notice. We are not obligated to effect more than eight registrations that have been declared and ordered effective.

Piggyback registration rights

If we propose to file a registration statement for a public offering of our securities, we must afford preferred shareholders or holders of ordinary shares issued upon the conversion of preferred shares an opportunity to participate in that offering. We have the right to terminate or withdraw any registration initiated by us under the piggyback registration rights prior to the effectiveness of such registration. In case of an underwritten offering, the underwriters have the right to exclude all of the shares requested to be registered in the initial public offering, or in any other public offering up to 75% of the shares requested to be registered by the holders of piggyback registration rights, subject to certain preconditions.

Tencent's Right to Purchase Additional Shares

Within a period commencing on March 8, 2020 and ending on March 8, 2021, so long as Tencent holds a number of our shares on an as-converted basis no less than 95% of the shares that it acquired on March 8, 2018, Tencent will have exclusive right to purchase such number of our shares from us and/or from JOYY at the then fair market value of our shares, so that Tencent's total voting power in us will reach 50.1% on an as-converted and fully-diluted basis immediately upon the completion of such purchase. On April 3, 2020, through its wholly-owned subsidiary Linen Investment Limited, Tencent exercised the option to acquire 16,523,819 Class B ordinary shares for an aggregate purchase price of US$262.6 million in cash from JOYY.

We have also agreed with Tencent, JOYY, All Worth Limited and Oriental Luck International Limited that for so long as Tencent and its affiliates hold 95% of the series B preferred shares (on an as-converted basis) that Tencent acquired on March 8, 2018, Tencent has a veto right on any proposed transaction that would constitute a deemed liquidation event (as defined in the shareholders agreement) with, issuance and sale of any equity securities of our group companies, and sale by JOYY, All Worth Limited and/or Oriental Luck International Limited of any equity securities of our group companies to, certain designated persons in privately negotiated transactions.

Employment Agreements and Indemnification Agreements

See "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Employment Agreements and Indemnification Agreements."

Share Option Grants

See "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share Incentive Plan."

C. Interests of Experts and Counsel Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

We are currently not a party to any material legal or administrative proceedings. We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management's time and attention. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Our Industry—We may be held liable for information or content displayed on, retrieved from or linked to our platform, or distributed to our users, and PRC authorities may impose legal sanctions on us, including, in serious cases, suspending or revoking the licenses needed to operate our platform," and "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Our Industry—We may be subject to intellectual property infringement claims or other allegations, which could result in our payment of substantial damages, penalties and fines, removal of relevant content from our websites and apps or seeking license arrangements which may not be available on commercially reasonable terms."

Dividend Policy

Our board of directors has discretion on whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Even if our board of directors decides to pay dividends on our ordinary shares, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our board of directors may deem relevant.

We do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiary in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiary to pay dividends to us. See "Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulation of Foreign Currency Exchange and Dividend Distribution" and "Item 10. Additional Information—E. Taxation—People's Republic of China Taxation."

If we pay any dividends, we will pay those dividends which are payable in respect of the Class A ordinary shares underlying our ADSs to the depositary, as the registered holder of such Class A ordinary shares, and the depositary then will pay such amounts to our ADS holders in proportion to the Class A ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our Class A ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details.

See "—C. Markets."

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing one of our Class A ordinary shares, have been listed on the NYSE since May 11, 2018. Our ADSs trade under the symbol "HUYA."

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our currently effective third amended and restated memorandum and articles of association, as well as the Companies Law (2020 Revision) insofar as they relate to the material terms of our ordinary shares.

We will hold an extraordinary general meeting of shareholders on May 15, 2020 for the Company's shareholders to consider, and if thought fit, approving the fourth amended and restated memorandum and articles of association of the Company.

Board of Directors

See "Item 6. Directors, Senior Management and Employees—C. Board Practices."

Objects of our Company

Under our third amended and restated memorandum and articles of association, the objects of our company are unrestricted and we have the full power and authority to carry out any object not prohibited by the laws of the Cayman Islands.

Ordinary Shares

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form and are issued when registered in our register of members. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Conversion

Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of Class B ordinary shares by a holder thereof to any person other than holders of Class B ordinary shares or their affiliates or upon a change of ultimate beneficial ownership of any Class B ordinary shares to any person or entity who is not an affiliate of the holder of such Class B ordinary shares, such Class B ordinary shares shall be automatically and immediately converted into the same number of Class A ordinary shares.

Dividends

The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to our third amended and restated memorandum and articles of association. In addition, our shareholders may by an ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, our company may declare and pay a dividend only out of funds legally available therefor, namely out of either our profit or our share premium account, provided that in no circumstances may we pay a dividend if, immediately after this payment, this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

Voting Rights

In respect of all matters subject to a shareholders' vote, each holder of Class A ordinary shares is entitled to one vote per share and each holder of Class B ordinary shares is entitled to ten votes per share on all matters subject to vote at our general meetings. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any shareholder present in person or by proxy.

A quorum required for a meeting of shareholders consists of one or more shareholders present or representing by proxy and holding shares which represent, in aggregate, not less than one-third of all votes attaching to the issued and outstanding voting shares entitled to vote at general meetings. Shareholders may be present in person or by proxy or, if the shareholder is a legal entity, by its duly authorized representative. Shareholders' meetings may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding, at the date of deposit of the requisition, shares which represent, in aggregate, no less than one-third of the votes attaching to all our issued and outstanding shares, in which case the directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our third amended and restated memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders. Advance notice of at least 10 calendar days is required for the convening of our annual general shareholders' meeting and any other general shareholders' meeting.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Law and our third amended and restated memorandum and articles of association. A special resolution will be required for important matters such as a change of our name or making changes to our third amended and restated memorandum and articles of association. Holders of the ordinary shares may, among other things, consolidate or subdivide their shares by ordinary resolution.

Transfer of Ordinary Shares

Subject to the restrictions in our third amended and restated memorandum and articles of association as set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as the NYSE may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three calendar months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the NYSE, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our board of directors may determine.

Liquidation

On a return of capital on winding up of our company, if the assets available for distribution among our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus will be distributed among our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to the par value of the shares held by them. We are an exempted company with limited liability registered under the Companies Law, and under the Companies Law, the liability of our members is limited to the amount, if any, unpaid on the shares respectively held by them. Our third amended and restated memorandum of association contains a declaration that the liability of our members is so limited.

Calls on Shares and Forfeiture of Shares

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, Repurchase and Surrender of Ordinary Shares

We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by a special resolution of our shareholders. Our company may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by our board of directors or by ordinary resolution of our shareholders, or are otherwise authorized by our memorandum and articles of association. Under the Companies Law, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if the company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Variations of Rights of Shares

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be materially adversely varied by, *inter alia*, the creation, allotment or issue of further shares ranking pari passu with such existing class of shares.

Issuance of Additional Shares

Our third amended and restated memorandum and articles of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our third amended and restated memorandum and articles of association also authorizes our board of directors to establish from time to time one or more series of preferred shares and to determine, with respect to any series of preferred shares, the terms and rights of that series, including but not limited to:

- the designation of the series;
- the number of shares of the series and the subscription price thereof if different from the par value thereof;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preferred shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

Inspection of Books and Records

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (save for our memorandum and articles of association).

Anti-takeover Provisions

Some provisions of our third amended and restated memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our third amended and restated memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

General Meetings of Shareholders and Shareholder Proposals

Our shareholders' general meetings may be held in such place within or outside the Cayman Islands as our board of directors considers appropriate.

As a Cayman Islands exempted company, we are not obliged by the Companies Law to call shareholders' annual general meetings. Our third amended and restated memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting. We, however, will hold an annual shareholders meeting during each fiscal year, as required by the listing rules of the NYSE.

Shareholders' annual general meetings and any other general meetings of our shareholders may be convened by a majority of our board of directors or our chairman. Advance notice of at least ten calendar days is required for the convening of our annual general shareholders' meeting and any other general meeting of our shareholders. A quorum required for a general meeting of shareholders consists of one or more shareholders present or representing by proxy, representing not less than one-third of all votes attaching to the issued and outstanding shares in our company entitled to vote at general meetings.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our third amended and restated memorandum and articles of association allow our shareholders holding shares representing in aggregate not less than one-third of all votes attaching to all issued and outstanding shares of our company that as at the date of the deposit carry the right to vote at general meetings, to requisition an extraordinary general meeting of our shareholders, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our third amended and restated memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

Election and Removal of Directors

Unless otherwise determined by our company in general meeting, our third amended and restated memorandum and articles of association provide that our board of directors will consist of not less than five directors, including no less than two independent directors and for as long as Tencent and its affiliates collectively hold 20% of the issued share capital of our company on a fully diluted basis, Tencent shall have the right to appoint at least one director. There are no provisions relating to retirement of directors upon reaching any age limit.

Subject to the above, the directors have the power to appoint any person as a director either to fill a casual vacancy on the board or as an addition to the existing board and our shareholders may also appoint any person to be a director by way of ordinary resolution.

Subject to restrictions contained in our third amended and restated memorandum and articles of association, a director may be removed with or without cause by ordinary resolution of our company.

In addition, the office of any director shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors, (ii) dies or is found to be or becomes of unsound mind, (iii) resigns his office by notice in writing to our company, (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our board resolves that his office be vacated, or (v) is removed from office pursuant to our third amended and restated memorandum and articles of association.

Proceedings of Board of Directors

Our third amended and restated memorandum and articles of association provide that our business is to be managed and conducted by our board of directors. The quorum necessary for board meetings may be fixed by the board and, unless so fixed at another number, will be a majority of the directors.

Our third amended and restated memorandum and articles of association provide that the board may from exercise all the powers of our company to borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of our company and to issue debentures and other securities whenever money is borrowed, or as security for any debt, liability or obligation of our company or of any third party.

Changes in Capital

Our shareholders may from time to time by ordinary resolution:

- increase our share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- sub-divide our existing shares, or any of them into shares of a smaller amount, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; or
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so canceled. Our shareholders may by special resolution, subject to confirmation by the Grand Court of the Cayman Islands on an application by our company for an order confirming such reduction, reduce our share capital or any capital redemption reserve in any manner permitted by law.

Exempted Company

We are an exempted company with limited liability under the Companies Law. The Companies Law distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue negotiable or bearer shares or shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on that shareholder's shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Register of Members

Under the Companies Law, we must keep a register of members and there should be entered therein:

- the names and addresses of the members, together with a statement of the shares held by each member, and such statement shall confirm (i) the amount paid or agreed to be considered as paid, on the shares of each member, (ii) the number and category of shares held by each member, and (iii) whether each relevant category of shares held by a member carries voting rights under the articles of association of the company, and if so, whether such voting rights are conditional;
- the date on which the name of any person was entered on the register as a member; and
- the date on which any person ceased to be a member.

Under Cayman Islands law, the register of members of our company is prima facie evidence of the matters set out therein (i.e. the register of members will raise a presumption of fact on the matters referred to above unless rebutted) and a member registered in the register of members should be deemed as a matter of Cayman Islands law to have legal title to the shares as set against its name in the register of members. Once our register of members has been updated, the shareholders recorded in the register of members will be deemed to have legal title to the shares set against their name in the register of members.

If the name of any person is incorrectly entered in or omitted from our register of members, or if there is any default or unnecessary delay in entering on the register the fact of any person having ceased to be a member of our company, the person or member aggrieved (or any member of our company or our company itself) may apply to the Grand Court of the Cayman Islands for an order that the register be rectified, and the Court may either refuse such application or it may, if satisfied of the justice of the case, make an order for the rectification of the register.

Differences in Corporate Law

The Companies Law is derived, to a large extent, from the older Companies Acts of England but does not follow recent United Kingdom statutory enactments, and accordingly there are significant differences between the Companies Law and the current Companies Act of England. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the comparable provisions of the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements. The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a "consolidation" means the combination of two or more constituent companies into a combined company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a statement of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a "parent" of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by a majority in number of each class of shareholders or creditors (representing 75% by value) with whom the arrangement is to be made and who must, in addition, represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder or creditor has the right to express to the court the view that the transaction ought not to be approved, the court would nevertheless be likely to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

The Companies Law also contains a statutory power of compulsory acquisition which may facilitate the "squeeze out" of dissentient minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction by way of scheme of arrangement is thus approved, or if a tender offer is made and accepted, a dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits. In principle, we will normally be the proper plaintiff and as a general rule, a derivative action may ordinarily not be brought by a minority shareholder. However, based on English authority, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands courts can be expected (and have had occasion) to follow and apply the common law principles (namely the rule in Foss v. Harbottle and the exceptions thereto) which permit a minority shareholder to commence a class action against, or derivative actions in the name of, our company to challenge:

- an act which is ultra vires or illegal and is therefore incapable of ratification by the shareholders,
- an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and
- an act which requires a resolution with a qualified (or special) majority (i.e. more than a simple majority) which has not been obtained.

Indemnification of Directors and Executive Officers and Limitation of Liability. Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our Memorandum and Articles of Association require us to indemnify our officers and directors against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained in their capacities as such unless such actions, proceedings, costs, charges, expenses, losses, damages or liabilities arise from dishonesty, willful default or fraud of such director or officer. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation.

In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in our Memorandum and Articles of Association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Anti-Takeover Provisions in the Memorandum and Articles of Association. Some provisions of our current memorandum and articles of association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our memorandum and articles of association, as amended and restated from time to time, for a proper purpose and for what they believe in good faith to be in the best interests of our company.

Directors' Fiduciary Duties. Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore he owes duties to the company including the following—a duty to act in good faith in the best interests of the company, a duty not to make a personal profit based on his or her position as director (unless the company permits him to do so), a duty not to put himself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company owes to the company a duty to act with skill and care and the test in the Cayman Islands against which that duty is measured is both objective and subjective.

Shareholder Proposals. Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. The Delaware General Corporation Law does not provide shareholders an express right to put any proposal before the annual meeting of shareholders, but in keeping with common law, Delaware corporations generally afford shareholders an opportunity to make proposals and nominations provided that they comply with the notice provisions in the certificate of incorporation or bylaws. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our Memorandum and Articles of Association allow our shareholders holding not less than one-third of all votes attaching to all issued and outstanding shares of our company entitled to vote at general meetings to requisition a shareholder's meeting, in which case our directors shall convene an extraordinary general meeting. Other than this right to requisition a shareholders' meeting, our Memorandum and Articles of Association do not provide our shareholders other right to put proposal before annual general meetings or extraordinary general meetings not called by such shareholders. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings.

Cumulative Voting. Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. Cayman Islands law does not prohibit cumulative voting, but our current articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors. Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our Memorandum and Articles of Association, subject to certain restrictions as contained therein, directors may be removed with or without cause, by an ordinary resolution of our shareholders. An appointment of a director may be on terms that the director shall automatically retire from office (unless he has sooner vacated office) at the next or a subsequent annual general meeting or upon any specified event or after any specified period in a written agreement between the Company and the director, if any; but no such term shall be implied in the absence of express provision. In addition, a director's office shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) is found to be or becomes of unsound mind or dies; (iii) resigns his office by notice in writing to the company; (iv) without special leave of absence from our board of directors, is absent from three consecutive meetings of the board and the board resolves that his office be vacated; (v) is prohibited by law from being a director; or (vi) is removed from office pursuant to any other provisions of our Memorandum and Articles of Association.

Transactions with Interested Shareholders. The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation or bylaws that is approved by its shareholders, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock or who or which is an affiliate or associate of the corporation and owned 15% or more of the corporation's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding Up. Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Law and our Memorandum and Articles of Association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders, or by an ordinary resolution on the basis that our company is unable to pay its debts as they fall due.

Variation of Rights of Shares. Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our Memorandum and Articles of Association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class with the written consent of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

Amendment of Governing Documents. Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under Cayman Islands law, our Memorandum and Articles of Association may only be amended with a special resolution of our shareholders.

Rights of Non-Resident or Foreign Shareholders. There are no limitations imposed by our Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

Exempted Company. The Companies Law in the Cayman Islands distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of members is not required to be open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue no par value shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 30 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on that shareholder's shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in "Item 4. Information on the Company" or elsewhere in this annual report.

D. Exchange Controls

See "Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulation of Foreign Currency Exchange and Dividend Distribution."

E. Taxation

The following discussion of Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change or differing interpretation, possibly with retroactive effect. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel. To the extent that the discussion relates to matters of PRC tax law, it represents the opinion of Commerce & Finance Law Offices, our PRC legal counsel.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. Maples and Calder (Hong Kong) LLP, our legal counsel as to Cayman Islands law, has advised us that there are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, after execution, brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of the shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of the Shares, nor will gains derived from the disposal of the shares be subject to Cayman Islands income or corporation tax.

People's Republic of China Taxation

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the State Administration of Taxation's general position on how the "de facto management body" test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We do not believe that HUYA Inc. meets all of the conditions above. HUYA Inc. is a company incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. For the same reasons, we believe our other entities outside of China are not PRC resident enterprises either. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body." There can be no assurance that the PRC government will ultimately take a view that is consistent with us.

Commerce & Finance Law Offices, our legal counsel as to PRC law, has advised us that however, if the PRC tax authorities determine that HUYA Inc. is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether non-PRC shareholders of HUYA Inc. would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that HUYA Inc. is treated as a PRC resident enterprise.

Provided that our Cayman Islands holding company, HUYA Inc., is not deemed to be a PRC resident enterprise, holders of our ADSs and ordinary shares who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares or ADSs. However, under SAT Circular 7, where a non-resident enterprise conducts an "indirect transfer" by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee or the PRC entity which directly owned such taxable assets may report to the relevant tax authority such indirect transfer. Using a "substance over form" principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferor obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Circular 7, and we may be required to expend valuable resources to comply with SAT Circular 7, or to establish that we should not be taxed under this circular. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Under the PRC enterprise income tax law, we may be classified as a PRC "resident enterprise," which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment."

United States Federal Income Tax Considerations

The following discussion is a summary of United States federal income tax considerations generally applicable to the ownership and disposition of our ADSs or ordinary shares by a U.S. holder (as defined below) that acquires our ADSs and holds our ADSs or ordinary shares as "capital assets" (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended (the "Code"). This discussion is based upon existing United States federal income tax law, which is subject to differing interpretations and may be changed, possibly with retroactive effect. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to any United States federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion does not address all aspects of United States federal income taxation that may be important to particular investors in light of their individual circumstances, including investors subject to special tax rules (for example, certain financial institutions, insurance companies, broker-dealers, traders in securities that have elected the mark-to-market method of accounting for their securities, partnerships and their partners, regulated investment companies, real estate investment trusts, and tax-exempt organizations (including private foundations)), investors who are not U.S. holders, investors who own (directly, indirectly, or constructively) 10% or more of our stock (by vote or value), investors that will hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for United States federal income tax purposes, investors required to accelerate the recognition of any item of gross income with respect to their ADSs or ordinary shares as a result of such income being recognized on an applicable financial statement, or investors that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this discussion does not discuss any non-United States, alternative minimum tax, state, or local tax or any non-income tax (such as the U.S. federal gift or estate tax) considerations, or the Medicare tax on net investment income. Each U.S. holder is urged to consult its tax advisor regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in our ADSs or ordinary shares.

General

For purposes of this discussion, a "U.S. holder" is a beneficial owner of our ADSs or ordinary shares that is, for United States federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created in, or organized under the laws of, the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a United States person under the Code or applicable United States Treasury regulations.

If a partnership (or other entity or arrangement treated as a partnership for United States federal income tax purposes) is a beneficial owner of our ADSs or ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding our ADSs or ordinary shares and partners in such partnerships are urged to consult their tax advisors as to the particular United States federal income tax consequences of an investment in our ADSs or ordinary shares.

For United States federal income tax purposes, it is generally expected that a U.S. holder of ADSs will be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. holder of our ADSs will be treated as the beneficial owner of the underlying shares represented by the ADSs. Accordingly, deposits or withdrawals of Class A ordinary shares for ADSs will generally not be subject to United States federal income tax.

Passive Foreign Investment Company Considerations

A non-United States corporation, such as our company, will be a "passive foreign investment company," or "PFIC," for United States federal income tax purposes, if, in any particular taxable year, either (i) 75% or more of its gross income for such year consists of certain types of "passive" income or (ii) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. For this purpose, cash and assets readily convertible to cash are categorized as a passive asset and the company's unbooked intangibles associated with active business activities may generally be classified as active assets. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

Although the law in this regard is unclear, we treat Guangzhou Huya (including its subsidiaries) as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. If it were determined, however, that we are not the owner of Guangzhou Huya (including its subsidiaries) for United States federal income tax purposes, we may be treated as a PFIC. Assuming that we are the owner of Guangzhou Huya (including its subsidiaries) for United States federal income tax purposes, and based upon our current and expected income and assets, we do not believe we were a PFIC for the taxable year ended December 31, 2019, and we do not expect to be a PFIC for the current taxable year or the foreseeable future.

While we do not expect to be or become a PFIC in the current or future taxable years, the determination of whether we are or will become a PFIC will depend in part upon the value of our assets, including goodwill and other unbooked intangibles (which will depend upon the market price of our ADSs from time-to-time, which may be volatile). Recent fluctuations in the market price of our ADSs increased our risk of becoming a PFIC. The market price of our ADSs may continue to fluctuate considerably; consequently, we cannot assure you of our PFIC status for any taxable year. It is also possible that the IRS may challenge our classification or valuation of our goodwill and other unbooked intangibles, which may result in our company being or becoming a PFIC for the current or one or more future taxable years.

The determination of whether we will be or become a PFIC will also depend, in part, on the composition of our income and assets. If we determine not to deploy significant amounts of cash for active purposes or if we were treated as not owning Guangzhou Huya for United States federal income tax purposes, our risk of being classified as a PFIC may substantially increase. Because our PFIC status for any taxable year is a factual determination that can be made only after the close of a taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year. If we are a PFIC for any year during which a U.S. holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our ADSs or ordinary shares.

The discussion below under "Dividends" and "Sale or Other Disposition of ADSs or Ordinary Shares" is written on the basis that we will not be or become a PFIC for United States federal income tax purposes. The United States federal income tax rules that apply if we are a PFIC for the current taxable year or any subsequent taxable year are generally discussed below under "Passive Foreign Investment Company Rules."

Dividends

Any cash distributions (including the amount of any tax withheld) paid on our ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under United States federal income tax principles, will generally be includible in the gross income of a U.S. holder as dividend income on the day actually or constructively received by the U.S. holder, in the case of ordinary shares, or by the depositary, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid will generally be reported as a dividend for United States federal income tax purposes. A non-corporate recipient of dividend income from a "qualified foreign corporation" will generally be subject to tax at a reduced United States federal tax rate rather than the marginal tax rates generally applicable to ordinary income provided that certain requirements are met.

A non-United States corporation (other than a corporation that is a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) will generally be considered to be a qualified foreign corporation (a) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program, or (b) with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States. Our ADSs have been approved for listingare listed on the NYSE, which is an established securities market in the United States, so we anticipate that our ADSs should qualify as readily tradable on an established securities market in the United States. Since we do not expect that our ordinary shares will beare not listed on established securities markets in the United States, we do not believe that dividends that we pay on our ordinary shares that are not backed by ADSs currently meet the conditions required for the reduced tax rate. We believe that our ADSs will be readily tradable, but there can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. In the event we are deemed to be a resident enterprise under the PRC Enterprise Income Tax Law, we may be eligible for the benefits of the United States-PRC income tax treaty (which the U.S. Treasury Department has determined is satisfactory for this purpose) and in that case we would be treated as a qualified foreign corporation with respect to dividends paid on our ordinary shares or ADSs. Each non-corporate U.S. holder is advised to consult its tax advisors regarding the availability of the reduced tax rate applicable to qualified dividend income for any dividends we pay with respect to our ADSs or ordinary shares. Dividends received on the ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations.

Dividends will generally be treated as income from foreign sources for United States foreign tax credit purposes and will generally constitute passive category income. In the event that we are deemed to be a PRC "resident enterprise" under the Enterprise Income Tax Law, a U.S. holder may be subject to PRC withholding taxes on dividends paid on our ADSs or ordinary shares. See "—People's Republic of China Taxation." In that case, a U.S. holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on ADSs or ordinary shares. A U.S. holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which such U.S. holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. U.S. holders are advised to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Sale or Other Disposition of ADSs or Ordinary Shares

A U.S. holder will generally recognize capital gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the U.S. holder's adjusted tax basis in such ADSs or ordinary shares. Any capital gain or loss will be long-term if the ADSs or ordinary shares have been held for more than one year and will generally be United States source gain or loss for United States foreign tax credit purposes. Long-term capital gain of non-corporate U.S. holders is generally eligible for a reduced rate of taxation. The deductibility of a capital loss may be subject to limitations. In the event that we are treated as a PRC "resident enterprise" under the Enterprise Income Tax Law and gain from the disposition of the ADSs or ordinary shares is subject to tax in the PRC, a U.S. holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income. U.S. holders are advised to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under their particular circumstances and the election to treat any gain as PRC source.

Passive Foreign Investment Company Rules

If we are a PFIC for any taxable year during which a U.S. holder holds our ADSs or ordinary shares, and unless the U.S. holder makes a mark-to-market election (as described below), the U.S. holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, for subsequent taxable years, on (i) any excess distribution that we make to the U.S. holder (which generally means any distribution paid during a taxable year to a U.S. holder that is greater than 125% of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. holder's holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition, including, under certain circumstances, a pledge, of ADSs or ordinary shares. Under the PFIC rules:

- such excess distribution and/or gain will be allocated ratably over the U.S. holder's holding period for the ADSs or ordinary shares;
- such amount allocated to the current taxable year and any taxable years in the U.S. holder's holding period prior to the first taxable year in which we are a PFIC, or pre-PFIC year, will be taxable as ordinary income;
- such amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect for that year; and
- an interest charge generally applicable to underpayments of tax will be imposed on the tax attributable to each prior taxable year, other than a pre-PFIC year.

If we are a PFIC for any taxable year during which a U.S. holder holds our ADSs or ordinary shares and any of our non-United States subsidiaries is also a PFIC, such U.S. holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. holders are advised to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

As an alternative to the foregoing rules, a U.S. holder of "marketable stock" in a PFIC may make a mark-to-market election with respect to such stock. The mark-to-market election is available only for stock that is regularly traded on a national securities exchange that is registered with the SEC, or on a foreign exchange or market that the IRS determines is a qualified exchange that has rules sufficient to ensure that the market price represents a legitimate and sound fair market value. Our ADSs are listed on the NYSE, which is a national securities exchange that is registered with the SEC. Consequently, if our ADSs continue to be listed on the NYSE and are being regularly traded, we expect that the mark-to-market election would be available to a U.S. holder that holds our ADSs were we to be or become a PFIC, but no assurances may be given in this regard. If a mark-to-market election is made, the U.S. holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. holder's adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. holder makes an effective mark-to-market election, in each year that we are a PFIC any gain recognized upon the sale or other disposition of the ADSs will be treated as ordinary income and loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If a U.S. holder makes a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. It should also be noted that only the ADSs and not the ordinary shares are listed on the NYSE. Consequently, if a U.S. holder holds ordinary shares that are not represented by ADSs, such holder generally will not be eligible to make a mark-to-market election if we are or were to become a PFIC.

If a U.S. holder makes a mark-to-market election in respect of a PFIC and such corporation ceases to be a PFIC, the U.S. holder will not be required to take into account the mark-to-market gain or loss described above during any period that such corporation is not a PFIC.

Because a mark-to-market election cannot be made for any lower-tier PFICs that a PFIC may own, a U.S. holder who makes a mark-to-market election with respect to our ADSs will generally continue to be subject to the general PFIC rules with respect to such U.S. holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for United States federal income tax purposes.

We do not intend to provide information necessary for U.S. holders to make qualified electing fund elections, which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

As discussed above under "Dividends," dividends that we pay on our ADSs or ordinary shares will not be eligible for the reduced tax rate that applies to qualified dividend income if we are a PFIC for the taxable year in which the dividend is paid or the preceding taxable year. In addition, if a U.S. holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, such holder would generally be required to file an annual IRS Form 8621. Each U.S. holder is advised to consult its tax advisors regarding the potential tax consequences to such holder if we are or become a PFIC, including the possibility of making a mark-to-market election.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

H. Documents on Display

We previously filed with the SEC our registration statement on Form F-1 (Registration No. 333-224202), as amended, including the prospectus contained therein, to register our Class A ordinary shares in relation to our initial public offering. We have also filed with the SEC a related registration statement on F-6 (Registration No. 333-224563) to register the ADSs.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish Deutsche Bank Trust Company Americas, the depositary of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us.

We will post this annual report on our website *http://ir.huya.com*. In addition, we will provide hardcopies of our annual report to shareholders, including ADS holders, free of charge upon request.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Our revenues and expenses are generally denominated in RMB. We do not believe that we currently have significant foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

As of December 31, 2019, we had U.S. dollar-denominated cash and cash equivalents, short-term deposits and short-term investments of US$88.7 million and US$895.0 million and US$1.2 million, respectively. A 10% depreciation of U.S. dollar against the Renminbi based on the foreign exchange rate on December 31, 2019 would result in a decrease of RMB61.8 million in cash and cash equivalents and RMB623.1 million in short-term deposits and RMB0.8 million in short-term investments. A 10% appreciation of U.S. dollar against the Renminbi based on the foreign exchange rate on December 31, 2019 would result in an increase of RMB61.8 million in cash and cash equivalents and RMB623.1 million in short-term deposits and RMB0.8 million in short-term investments.

Interest Rate Risk

Our exposure to interest rate risk primarily relates to Interest and short-term investments income, which consists of interest earned on bank deposits, short-term wealth management products and money market funds with maturities of less than one year.

We generated interest and short-term investment income of RMB14.0 million, RMB156.5 million and RMB304.5 million (US$43.7 million) in 2017, 2018 and 2019, respectively. We had cash and cash equivalents of RMB1,113.2 million (US$159.9 million) and RMB6,743.4 million (US$968.6 million) of short term deposits as of December 31, 2019. Assuming such amount of cash and cash equivalents and short term deposits were held entirely in the form of interest-bearing bank deposits, a hypothetical one percentage point (100 basis-point) decrease in interest rates would decrease our interest income from these interest-bearing bank deposits for one year by approximately RMB78.6 million (US$11.3 million). We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

As an ADS holder, you will be required to pay the following service fees to the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs):

Service	Fees
• To any person to which ADSs are issued or to any person to which a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash)	Up to US$0.05 per ADS issued
• Cancelation of ADSs, including the case of termination of the deposit agreement	Up to US$0.05 per ADS canceled
• Distribution of cash dividends	Up to US$0.05 per ADS held
• Distribution of cash entitlements (other than cash dividends) and/or cash proceeds from the sale of rights, securities and other entitlements	Up to US$0.05 per ADS held
• Distribution of ADSs pursuant to exercise of rights	Up to US$0.05 per ADS held
• Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US$0.05 per ADS held
• Depositary services	Up to US$0.05 per ADS held on the applicable record date(s) established by the depositary bank

As an ADS holder, you will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs) such as:

- Fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.

- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

The depositary fees payable upon the issuance and cancelation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancelation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed or by selling a portion of distributable property to pay the fees. In the case of distributions other than cash (i.e., share dividends, rights), the depositary bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary banks.

In the event of refusal to pay the depositary fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADS program upon such terms and conditions as we and the depositary may agree from time to time. In 2019, we did not record any cash received from the depository for expenses incurred in connection with the establishment and maintenance of the ADS program.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Material Modifications to the Rights of Security Holders

See "Item 10. Additional Information—B. Memorandum and Articles of Association—Ordinary Shares" for a description of the rights of securities holders, which remain unchanged.

Use of Proceeds

The following "Use of Proceeds" information relates to the Registration Statement on Form F-1, as amended (File number: 333-224202) in relation to the initial public offering of 17,250,000 ADSs (reflecting the full exercise of the over-allotment option by the underwriters to purchase an additional 2,250,000 ADSs) representing 17,250,000 of our Class A ordinary shares, at a public offering price of US$12.00 per ADS. The registration statement was declared effective by the SEC on May 10, 2018. Our initial public offering closed in May 2018. Credit Suisse Security (USA) LLC, Goldman Sachs (Asia) L.L.C. and UBS Securities LLC were the representatives of the underwriters for our initial public offering. The aggregate price of the offering amount registered and sold, including the amount registered and sold for exercise of over-allotment option, were US$207.0 million.

We received net proceeds of US$190.1 million from our initial public offering in May 2018 and exercise of over-allotment option. Our expenses incurred and paid to others in connection with the issuance and distribution of the ADSs in our offering totaled US$16.9 million, which included US$14.5 million for underwriting discounts and commissions and US$2.4 million for other expenses. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds we received from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

In 2019, we used approximately US$71.8 million of the net proceeds from our initial public offering to invest in overseas expansion and for general corporate purpose. We intend to use the remaining proceeds from our initial public offering to expand and enhance our service offerings, and strengthen our technologies and support overseas expansion, and use the balance of the proceeds for working capital and other general corporate purpose. We may also use a portion of the net proceeds for investing in, or acquiring, complementary businesses, products, services or technologies, although we have not identified any near-term investment or acquisition targets.

The following "Use of Proceeds" information relates to the Registration Statement on Form F-1, as amended (File number: 333-230706) in relation to the public offering of 18,400,000 ADSs representing 18,400,000 of our Class A ordinary shares (including 13,600,000 ADSs sold by us and 4,800,000 ADSs sold by the selling shareholder), at a public offering price of US$24.00 per ADS. The registration statement was declared effective by the SEC on April 9, 2019. Our public offering closed in April 2019. Credit Suisse Security (USA) LLC, Goldman Sachs (Asia) L.L.C., Citigroup Global Markets Inc. and Jefferies LLC were the representatives of the underwriters for our public offering. The aggregate price of the offering amount registered and sold by us were US$326.4 million.

We received net proceeds of US$313.8 million from our public offering in April 2019. Our expenses incurred and paid to others in connection with the issuance and distribution of the ADSs in our offering totaled US$12.5 million, which included US$11.4 million for underwriting discounts and commissions and US$1.1 million for other expenses. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds we received from the public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

In 2019, we did not use any of the net proceeds from the public offering in April 2019. We intend to use the proceeds from the public offering to expand content genres, improve content quality, strengthen technologies and products, support overseas expansion, and expand and enhance product and service offerings, and use the balance of the proceeds for working capital and other general corporate purpose.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this annual report.

Based upon that evaluation, our management has concluded that, as of December 31, 2019, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of our company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, our management including our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of internal control over financial reporting as of December 31, 2019 using the criteria set forth in the report "Internal Control—Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2019.

Attestation Report of the Independent Registered Public Accounting Firm

Our independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian LLP, has audited the effectiveness of our company's internal control over financial reporting as of December 31, 2019, as stated in its report, which appears on page F-2 of this annual report on Form 20-F.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16.A. AUDIT COMMITTEE FINANCIAL EXPERT

See "Item 6. Directors, Senior Management and Employees—C. Board Practices."

ITEM 16.B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to all of the directors, officers and employees of us and our subsidiaries, whether they work for us on a full-time, part-time, consultative, or temporary basis. Certain provisions of the code apply specifically to our chief executive officer, chief financial officer, senior finance officer, controller, senior vice presidents, vice presidents and any other persons who perform similar functions for us. We have posted a copy of our code of business conduct and ethics on our website at http://ir.huya.com.

ITEM 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by the categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP, our independent registered public accounting firm, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

	2018 RMB	2019 RMB
	(in thousands)	
Audit fees[1]	9,728	8,797
Tax fees[2]	544	—

Notes:
(1) "Audit fees" represent the aggregate fees billed for each of the fiscal years listed for professional services rendered by our principal auditors for the audit or review of our annual or quarterly financial statements and fees for assurance services rendered in connection with our public offering.

(2) "Tax fees" means the aggregate fees billed in each of the fiscal years listed for the professional tax services rendered by our principal auditors.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by PricewaterhouseCoopers Zhong Tian LLP, including audit services and tax services as described above, other than those for *de minimis* services which are approved by the Audit Committee prior to the completion of the audit.

ITEM 16.D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

See "Item 16G. Corporate Governance."

ITEM 16.E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None

ITEM 16.F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16.G. CORPORATE GOVERNANCE

As a Cayman Islands exempted company listed on the NYSE, we are subject to the NYSE Listed Company Manual corporate governance listing standards. We are a "controlled company" as defined under the NYSE Listed Company Manual because Tencent beneficially owns more than 50% of our total voting power. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and will rely, on certain exemptions from corporate governance rules, including:

- an exemption from the rule that a majority of our board of directors must be independent directors; and
- the requirement that the nominating committee be composed entirely of independent directors.

Our board of directors is not composed of a majority of independent directors. Furthermore, not all members of our nominating and corporate governance committee are independent directors. As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

The NYSE Listed Company Manual permits a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NYSE Listed Company Manual. We follow home country practice and have a two-member audit committee, in lieu of the requirement of NYSE Listed Company Manual Section 303A.07 to have an audit committee with at least three members.

ITEM 16.H. MINE SAFETY DISCLOSURE

Not applicable.

PART III.

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of HUYA Inc. and its subsidiaries are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	Third Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
2.1	Registrant's Specimen American Depositary Receipt (incorporated herein by reference to Exhibit 4.1 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
2.2	Registrant's Specimen Certificate for Class A ordinary shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
2.3	Deposit Agreement dated May 10, 2018, among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8 (File No. 333-227336) filed with the Securities and Exchange Commission on September 14, 2018)
2.4	Amended and Restated Shareholders' Agreement dated as of March 8, 2018 between the Registrant and other parties thereto (incorporated herein by reference to Exhibit 4.4 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
2.5*	Description of Securities

Exhibit Number	Description of Document
4.1	The Amended and Restated 2017 Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
4.2	Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
4.3	Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333 224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
4.4	English translation of the Equity Interest Pledge agreement among Huya Technology, Guangzhou Huya, and Guangzhou Huaduo dated July 10, 2017 (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
4.5	English translation of the Equity Interest Pledge Agreement among Huya Technology, Guangzhou Qinlv and Guangzhou Huya dated July 10, 2017 (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
4.6	English translation of the Exclusive Business Operation Agreement between Huya Technology and Guangzhou Huya dated July 10, 2017 (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
4.7	English translation of the Shareholder Voting Rights Proxy Agreement among Guangzhou Huaduo, Guangzhou Qinlv, Huya Technology and Guangzhou Huya dated July 10, 2017 (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
4.8	English translation of the Exclusive Option Agreement among Huya Technology, Guangzhou Huaduo, Guangzhou Qinlv and Guangzhou Huya dated July 10, 2017 (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
4.9	English translation of Patent License Agreement between Guangzhou Huya and Guangzhou Huaduo dated December 31, 2016 (incorporated herein by reference to Exhibit 10.11 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)

Exhibit Number	Description of Document
4.10	Series B-2 Preferred Share Subscription Agreement among HUYA Inc., Huya Limited, Guangzhou Huya, Huya Technology, JOYY, Mr. Rongjie Dong and his affiliates, and Linen Investment Limited dated March 8, 2018 (incorporated herein by reference to Exhibit 10.12 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
4.11	English translation of Non-Compete Agreement between Guangzhou Huaduo and Guangzhou Huya dated March 8, 2018 (incorporated herein by reference to Exhibit 10.13 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
4.12	English translation of Business Cooperation Agreement between Guangzhou Huaduo and Guangzhou Huya dated March 8, 2018 (incorporated herein by reference to Exhibit 10.14 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
4.13	English translation of Business Cooperation Agreement between Shenzhen Tencent Computer Systems Company Ltd. and Guangzhou Huya dated February 5, 2018 (incorporated herein by reference to Exhibit 10.15 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
4.14*	Registration Rights Agreement by and between HUYA Inc. and JOYY Inc. dated April 3, 2020.
4.15*	Written Acknowledgment to Registration Rights Agreement executed by Linen Investment Limited dated April 3, 2020.
8.1*	Principal Subsidiaries and Variable Interest Entity of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-224202), as amended, initially filed with the Securities and Exchange Commission on April 9, 2018)
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1**	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2**	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1*	Consent of Maples and Calder (Hong Kong) LLP
15.2*	Consent of Commerce & Finance Law Offices
15.3*	Consent of PricewaterhouseCoopers Zhong Tian LLP, Independent Registered Public Accounting Firm
101.INS*	Inline XBRL Instance Document — the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document

Exhibit Number	Description of Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File — the cover page XBRL tags are embedded within the Exhibit 101 Inline XBRL document set

* Filed herewith.
** Furnished herewith.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

HUYA Inc.

By: /s/ Rongjie Dong
Name: Rongjie Dong
Title: Chief Executive Officer

Date: April 27, 2020

HUYA INC.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of HUYA Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of HUYA Inc. and its subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive (loss) income, changes in shareholders' (deficit) equity and cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue recognition — identification of distinct performance obligations and estimate of standalone selling price

As described in Note 2(o) to the consolidated financial statements, the Company's sources of revenue include live streaming and others. The Company's consolidated revenues were RMB8,375 million for the year ended December 31, 2019, of which RMB7,976 million were revenues from live streaming. Management identifies multiple distinct performance obligations in certain contracts of its live streaming business. Customers receive a series of services, virtual items and virtual rights by entering into these contracts with the Company. Management determines the distinct performance obligations and transaction price of each identified distinct performance obligation and recognizes revenue upon transfer of control of the promised services in an amount that reflects the consideration the Company expects to receive in exchange for those services. Management exercises significant judgment in determining the distinct performance obligations and transaction price which is dependent on the contractual terms for each type of contract with multiple distinct performance obligations.

The principal considerations for our determination that performing procedures relating to the identification of performance obligations and contracts with multiple performance obligations is a critical audit matter are that there was significant judgment by management in identifying the distinct performance obligations and estimating the standalone selling price of each distinct performance obligation due to the complexity of the contracts. Certain services are provided to customers over time and have the same pattern of transfer to customers. Management exercises judgement in determining the number of distinct performance obligations by accounting for services that have the same pattern of transfer to customers as a single performance obligation. Certain distinct performance obligations are not separately sold by the Company. Management exercises judgement in determining the standalone selling price of these distinct performance obligations. This in turn led to significant auditor judgment and effort in performing procedures and in evaluating management's significant judgment in determining whether the distinct performance obligations were appropriately identified and whether the standalone selling price of each distinct performance obligation was appropriately estimated.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including identification of distinct performance obligations and estimate of standalone selling prices used to allocate transaction price to distinct performance obligations in its contracts with customers. These procedures also included, among others, on a test basis: (i) testing the completeness and accuracy of management's identification of the distinct performance obligations by evaluating customer arrangements, (ii) testing management's process for estimating standalone selling price which included testing the completeness and accuracy of input data used and evaluating the reasonableness of significant assumptions used by management, principally including market and pricing conditions and other observable inputs such as historical pricing practices and (iii) testing management's process for determining the appropriate amount of revenue recognition based on the performance obligations identified in relevant contracts.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Guangzhou, the People's Republic of China
April 27, 2020

We have served as the Company's auditor since 2017.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2018 AND 2019
(All amounts in thousands, except share, ADS, per share and per ADS data)

	As of December 31,		
	2018	2019	2019
	RMB	RMB	US$ (Note 2(e))
Assets			
Current assets			
Cash and cash equivalents	709,019	1,113,193	159,900
Restricted cash	—	1,392	200
Short-term deposits	4,983,825	6,743,445	968,635
Short-term investments	300,162	2,219,531	318,816
Accounts receivable, net	43,849	61,708	8,864
Amounts due from related parties	238,839	51,936	7,460
Prepayments and other current assets	319,493	400,615	57,545
Total current assets	6,595,187	10,591,820	1,521,420
Non-current assets			
Deferred tax assets	30,945	45,816	6,581
Investments	219,827	379,424	54,501
Property and equipment, net	87,419	96,686	13,888
Intangible assets, net	51,979	45,085	6,476
Right-of-use assets, net	—	102,824	14,770
Prepayments and other non-current assets	120,830	104,895	15,067
Total non-current assets	511,000	774,730	111,283
Total assets	7,106,187	11,366,550	1,632,703
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable (including amounts of the consolidated variable interest entity and its subsidiaries ("VIEs") without recourse to the Company of RMB9,221 and RMB1,057 as of December 31, 2018 and 2019, respectively)	9,221	3,725	535
Deferred revenue (including amounts of the consolidated VIEs without recourse to the Company of RMB469,378 and RMB791,394 as of December 31, 2018 and 2019, respectively)	469,378	795,005	114,195
Advances from customers (including amounts of the consolidated VIEs without recourse to the Company of RMB14,403 and RMB50,961 as of December 31, 2018 and 2019, respectively)	14,403	50,961	7,320
Income taxes payable (including amounts of the consolidated VIEs without recourse to the Company of nil and RMB20,397 as of December 31, 2018 and 2019, respectively)	—	26,051	3,742
Accrued liabilities and other current liabilities (including amounts of the consolidated VIEs without recourse to the Company of RMB786,612 and RMB989,274 as of December 31, 2018 and 2019, respectively)	852,771	1,460,025	209,721
Amounts due to related parties (including amounts of the consolidated VIEs without recourse to the Company of RMB31,722 and RMB77,169 as of December 31, 2018 and 2019, respectively)	34,673	79,032	11,352
Lease liabilities due within one year (including amounts of the consolidated VIEs without recourse to the Company of nil and RMB5,418 as of December 31, 2018 and 2019, respectively)	—	31,878	4,579
Total current liabilities	1,380,446	2,446,677	351,444
Non-current liabilities			
Lease liabilities (including amounts of the consolidated VIEs without recourse to the Company of nil and RMB4,800 as of December 31, 2018 and 2019, respectively)	—	70,110	10,071
Deferred revenue (including amounts of the consolidated VIEs without recourse to the Company of RMB80,734 and RMB164,913 as of December 31, 2018 and 2019, respectively)	80,734	164,913	23,688
Total non-current liabilities	80,734	235,023	33,759
Total liabilities	1,461,180	2,681,700	385,203
Commitments and contingencies (Note 26)			

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2018 AND 2019 (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data)

	As of December 31,		
	2018	2019	2019
	RMB	RMB	US$ (Note 2(e))
Shareholders' equity			
Class A ordinary shares (US$0.0001 par value; 750,000,000 and 750,000,000 shares authorized, 44,639,737 and 67,101,314 shares issued and outstanding as of December 31, 2018 and 2019, respectively)	29	44	6
Class B ordinary shares (US$0.0001 par value; 200,000,000 and 200,000,000 shares authorized, 159,157,321 and 152,357,321 shares issued and outstanding as of December 31, 2018 and 2019, respectively)	104	100	14
Additional paid-in capital	7,667,855	10,081,946	1,448,181
Statutory reserves	34,634	64,679	9,291
Accumulated deficit	(2,424,182)	(1,986,054)	(285,279)
Accumulated other comprehensive income	366,567	524,135	75,287
Total shareholders' equity	5,645,007	8,684,850	1,247,500
Total liabilities and shareholders' equity	7,106,187	11,366,550	1,632,703

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019
(All amounts in thousands, except share, ADS, per share and per ADS data)

	For the year ended December 31,			
	2017	2018	2019	2019
	RMB	RMB	RMB	US$ (Note 2(e))
Net revenues				
Live streaming	2,069,536	4,442,845	7,976,214	1,145,711
Advertising and others (including transactions with related parties of RMB468, RMB16,300 and RMB11,498 for the years ended December 31, 2017, 2018 and 2019, respectively)	115,280	220,595	398,287	57,210
Total net revenues	2,184,816	4,663,440	8,374,501	1,202,921
Cost of revenues [(1)] (including transactions with related parties of RMB259,244, RMB266,852 and RMB380,219 for the years ended December 31, 2017, 2018 and 2019, respectively)	(1,929,864)	(3,933,647)	(6,892,579)	(990,057)
Gross Profit	254,952	729,793	1,481,922	212,864
Operating expenses [(1)]				
Research and development expenses (including transactions with Parent Company of RMB45,563, RMB10,042 and RMB5,720 for the years ended December 31, 2017, 2018 and 2019, respectively)	(170,160)	(265,152)	(508,714)	(73,072)
Sales and marketing expenses (including transactions with related parties of RMB6,639, RMB4,038 and RMB13,350 for the years ended December 31, 2017, 2018 and 2019, respectively)	(87,292)	(189,207)	(438,396)	(62,972)
General and administrative expenses (including transactions with Parent Company of RMB16,503, RMB3,080 and RMB1,058 for the years ended December 31, 2017, 2018 and 2019, respectively)	(101,995)	(287,710)	(352,824)	(50,680)
Total operating expenses	(359,447)	(742,069)	(1,299,934)	(186,724)
Other income	9,629	38,938	79,390	11,404
Operating (loss) income	(94,866)	26,662	261,378	37,544
Interest and short-term investments income	14,049	156,549	304,491	43,737
Fair value loss on derivative liabilities	—	(2,285,223)	—	—
Foreign currency exchange gains, net	—	51	1,157	166
(Loss) income before income tax benefits (expenses)	(80,817)	(2,101,961)	567,026	81,447
Income tax benefits (expenses)	—	50,943	(96,078)	(13,801)
(Loss) income before share of (loss) income in equity method investments, net of income taxes	(80,817)	(2,051,018)	470,948	67,646
Share of (loss) income in equity method investments, net of income taxes	(151)	113,329	(2,775)	(399)
Net (loss) income attributable to HUYA Inc.	(80,968)	(1,937,689)	468,173	67,247
Accretion to Series A redeemable convertible preferred shares (“Preferred Shares”)	(19,842)	(71,628)	—	—
Deemed dividend to Series A Preferred Shareholders	—	(496,995)	—	—
Net (loss) income attributable to ordinary shareholders	(100,810)	(2,506,312)	468,173	67,247
Net (loss) income	(80,968)	(1,937,689)	468,173	67,247
Other comprehensive income:				
Foreign currency translation adjustments, net of nil tax	308	366,259	157,568	22,633
Total comprehensive (loss) income attributable to HUYA Inc.	(80,660)	(1,571,430)	625,741	89,880

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019 (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data)

	For the year ended December 31,			
	2017	2018	2019	2019
	RMB	RMB	RMB	US$ (Note 2(e))
Net (loss) income per ADS*				
—Basic	(1.01)	(15.02)	2.18	0.31
—Diluted	(1.01)	(15.02)	2.02	0.29
Weighted average number of ADSs used in calculating net (loss) income per ADS				
—Basic	100,000,000	166,828,435	214,811,862	214,811,862
—Diluted	100,000,000	166,828,435	232,024,961	232,024,961
Net (loss) income per ordinary share*				
—Basic	(1.01)	(15.02)	2.18	0.31
—Diluted	(1.01)	(15.02)	2.02	0.29
Weighted average number of ordinary shares used in calculating net (loss) income per ordinary share				
—Basic	100,000,000	166,828,435	214,811,862	214,811,862
—Diluted	100,000,000	166,828,435	232,024,961	232,024,961

* Each ADS represents one Class A ordinary share.

(1) Share-based compensation was allocated in cost of revenues and operating expenses as follows:

	For the year ended December 31,			
	2017	2018	2019	2019
	RMB	RMB	RMB	US$ (Note 2(e))
Cost of revenues	2,877	10,472	31,593	4,538
Research and development expenses	9,174	30,643	86,296	12,396
Sales and marketing expenses	791	1,832	5,919	850
General and administrative expenses	27,266	183,748	157,936	22,686

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT) EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019
(All amounts in thousands, except share, ADS, per share and per ADS data)

	Class A ordinary shares		Class B ordinary shares		Additional paid-in capital	Parent Company deficit	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' (deficit) equity
	Shares	Amount	Shares	Amount					
		RMB		RMB	RMB	RMB	RMB	RMB	RMB
Balance at January 1, 2017	—	—	—	—	—	(164,387)	—	—	(164,387)
Net increase in Parent Company investment	—	—	—	—	—	164,913	—	—	164,913
Consummation of the carve-out	—	—	—	—	526	(526)	—	—	—
Capital contribution from VIE of JOYY	—	—	—	—	100,000	—	—	—	100,000
Deemed contribution from JOYY	—	—	—	—	20,000	—	—	—	20,000
Issuance of ordinary shares	992,456	1	99,007,544	66	—	—	—	—	67
Share-based compensation related to JOYY's Share-based Awards	—	—	—	—	10,465	—	—	—	10,465
Share-based compensation related to Huya Share-based Awards	—	—	—	—	19,473	—	—	—	19,473
Share-based compensation related to the Chief Executive Officer's ("CEO's") Awards	—	—	—	—	10,170	—	—	—	10,170
Accretion to Series A Preferred Shares redemption value	—	—	—	—	(19,842)	—	—	—	(19,842)
Net loss	—	—	—	—	—	—	(80,968)	—	(80,968)
Foreign currency translation adjustment, net of nil tax	—	—	—	—	—	—	—	308	308
Balance at December 31, 2017	992,456	1	99,007,544	66	140,792	—	(80,968)	308	60,199

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT) EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019 (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data)

	Class A ordinary shares		Class B ordinary shares		Additional paid-in capital	Statutory reserves	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' equity
	Shares	Amount	Shares	Amount					
		RMB		RMB	RMB	RMB	RMB	RMB	RMB
Balance at December 31, 2017	992,456	1	99,007,544	66	140,792	—	(80,968)	308	60,199
Share-based compensation related to JOYY's Share-based Awards	—	—	—	—	5,833	—	—	—	5,833
Share-based compensation related to Huya Share-based Awards	—	—	—	—	220,862	—	—	—	220,862
Class B ordinary shares converted to Class A ordinary shares resulted from the transfer of such shares from JOYY to other investors	8,750,223	6	(8,750,223)	(6)	—	—	—	—	—
Accretion to Series A Preferred Shares redemption value prior to the extinguishment	—	—	—	—	(7,078)	—	—	—	(7,078)
Accretion to Series A Preferred Shares redemption value post the extinguishment	—	—	—	—	(6,274)	—	(4,165)	—	(10,439)
Accretion to Series B-2 Preferred Shares redemption value	—	—	—	—	(32,526)	—	(21,585)	—	(54,111)
Deemed dividend to Series A Preferred Shareholders	—	—	—	—	(151,854)	—	(345,141)	—	(496,995)
Issuance of Class A ordinary shares upon the completion of the initial public offering ("IPO")	17,250,000	11	—	—	1,207,738	—	—	—	1,207,749
Conversion of Series A Preferred Shares to ordinary shares upon the completion of the IPO	17,647,058	11	4,411,765	3	436,485	—	—	—	436,499
Conversion of Series B-2 Preferred Shares to ordinary shares upon the completion of the IPO	—	—	64,488,235	41	2,665,050	—	—	—	2,665,091
Derecognition of derivative liabilities upon conversion	—	—	—	—	3,188,827	—	—	—	3,188,827
Appropriation to statutory reserves	—	—	—	—	—	34,634	(34,634)	—	—
Net loss	—	—	—	—	—	—	(1,937,689)	—	(1,937,689)
Foreign currency translation adjustment, net of nil tax	—	—	—	—	—	—	—	366,259	366,259
Balance at December 31, 2018	44,639,737	29	159,157,321	104	7,667,855	34,634	(2,424,182)	366,567	5,645,007

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT) EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019 (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data)

	Class A ordinary shares		Class B ordinary shares		Additional paid-in capital	Statutory reserves	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' equity
	Shares	Amount	Shares	Amount					
		RMB		RMB	RMB	RMB	RMB	RMB	RMB
Balance at December 31, 2018	44,639,737	29	159,157,321	104	7,667,855	34,634	(2,424,182)	366,567	5,645,007
Share-based compensation related to JOYY's Share-based Awards	—	—	—	—	1,996	—	—	—	1,996
Share-based compensation related to Huya Share-based Awards	—	—	—	—	279,748	—	—	—	279,748
Class B ordinary shares converted to Class A ordinary shares	6,800,000	4	(6,800,000)	(4)	—	—	—	—	—
Issuance of Class A ordinary shares upon the completion of the follow-on public offering	13,600,000	9	—	—	2,110,057	—	—	—	2,110,066
Issuance of ordinary shares for exercised share options	2,011,144	2	—	—	32,409	—	—	—	32,411
Issuance of ordinary shares for restricted share units	50,433	—	—	—	—	—	—	—	—
Deemed distribution to JOYY	—	—	—	—	(10,119)	—	—	—	(10,119)
Appropriation to statutory reserves	—	—	—	—	—	30,045	(30,045)	—	—
Net income	—	—	—	—	—	—	468,173	—	468,173
Foreign currency translation adjustment, net of nil tax	—	—	—	—	—	—	—	157,568	157,568
Balance at December 31, 2019	67,101,314	44	152,357,321	100	10,081,946	64,679	(1,986,054)	524,135	8,684,850

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019
(All amounts in thousands, except share, ADS, per share and per ADS data)

	For the year ended December 31,			
	2017	2018	2019	2019
	RMB	RMB	RMB	US$
Cash flows from operating activities				
Net (loss) income attributable to HUYA Inc.	(80,968)	(1,937,689)	468,173	67,247
Adjustments to reconcile net (loss) income to net cash provided by operating activities				
Depreciation of property and equipment	6,864	26,818	45,455	6,529
Amortization of acquired intangible assets	804	8,224	17,080	2,453
Amortization of right-of-use assets	—	—	25,229	3,624
Allowance for doubtful accounts	500	632	—	—
Loss (gain) on disposal of property and equipment and other long-term assets	1	5	(1,621)	(233)
Share-based compensation	40,108	226,695	281,744	40,470
Share of loss (income) in equity method investments, net of income taxes	151	(113,329)	2,775	399
Other non-cash expense	20,000	—	—	—
Other non-cash income	—	—	(10,119)	(1,454)
Deferred income taxes	—	(50,943)	(14,871)	(2,136)
Fair value loss of derivative liabilities	—	2,285,223	—	—
Short-term investments income	—	(2,541)	(21,497)	(3,088)
Foreign currency exchange gains	—	(51)	(1,157)	(166)
Changes in operating assets and liabilities:				
Accounts receivable	(27,407)	(14,634)	(17,909)	(2,572)
Prepayments and other assets	(21,396)	(301,697)	(115,353)	(16,570)
Amounts due from related parties	(104,154)	(132,624)	186,903	26,847
Accounts payable	1,097	(3,709)	90	13
Amounts due to related parties	8,239	26,278	44,359	6,372
Deferred revenue	220,224	261,669	409,806	58,865
Lease liabilities	—	—	(23,536)	(3,381)
Advances from customers	3,822	10,441	36,558	5,251
Accrued liabilities and other current liabilities	174,559	428,693	607,254	87,227
Income tax payable	—	—	26,051	3,742
Net cash provided by operating activities	242,444	717,461	1,945,414	279,439
Cash flows from investing activities				
Placements of short-term deposits	(1,256,153)	(5,781,911)	(7,166,676)	(1,029,429)
Maturities of short-term deposits	759,497	1,775,811	5,553,758	797,747
Cash paid to purchase short-term deposits together with JOYY	(7,096)	—	—	—
Cash received in connection with purchasing short-term deposits together with JOYY	—	7,096	—	—
Placement of short-term investments	—	(863,753)	(3,706,780)	(532,446)
Maturities of short-term investments	—	566,132	1,808,908	259,833
Purchase of property and equipment	(37,167)	(74,804)	(61,210)	(8,792)
Purchase of intangible assets	(6,208)	(52,583)	(10,186)	(1,463)
Cash paid for long-term investments	(10,450)	(86,200)	(92,944)	(13,351)
Prepayment for long-term investments	—	(67,250)	—	—
Cash received from disposal of an investment	—	10,000	—	—
Cash paid for other non-current assets	(2,000)	—	—	—
Proceeds from disposal of property and equipment	16	10	159	23
Loan to a third party	—	—	(10,000)	(1,436)
Net cash used in investing activities	(559,561)	(4,567,452)	(3,684,971)	(529,314)

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019 (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data)

	For the year ended December 31,			
	2017	2018	2019	2019
	RMB	RMB	RMB	US$ (Note 2(e))
Cash flows from financing activities				
Net increase in Parent Company investment	164,913	—	—	—
Capital injection from VIE of JOYY	100,000	—	—	—
Proceeds from issuance of Series A Preferred Shares	509,535	—	—	—
Proceeds from issuance of Series B-2 Preferred Shares	—	2,919,112	—	—
Net proceeds from issuance of ordinary shares upon IPO	—	1,207,749	—	—
Net proceeds from issuance of ordinary shares upon follow-on public offering	—	—	2,110,715	303,185
Proceeds from exercise of vested share options	—	—	22,936	3,295
Net cash provided by financing activities	774,448	4,126,861	2,133,651	306,480
Net increase in cash and cash equivalents	457,331	276,870	394,094	56,605
Cash and cash equivalents at the beginning of the year	6,187	442,532	709,019	101,844
Effect of exchange rate changes on cash and cash equivalents	(20,986)	(10,383)	11,472	1,651
Cash and cash equivalents at the end of the year	442,532	709,019	1,114,585	160,100

	For the year ended December 31,			
	2017	2018	2019	2019
	RMB	RMB	RMB	US$ (Note 2(e))
Supplemental disclosure of cash flows information:				
- Income tax paid	—	—	84,898	12,195
- Acquisition of property and equipment in form of accounts payable and amounts due to parent company	2,026	9,160	3,574	513
- Non-cash transaction for acquiring an equity investment	—	—	1,500	215

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

1. Organization and principal activities

(a) Organization and principal activities

HUYA Inc. ("Huya" or the "Company") is a subsidiary of JOYY Inc. (the "Parent Company" or "JOYY", refer to JOYY Inc. or JOYY's consolidated operating entities, where appropriate) before Linen Investment Limited obtains controlling ownership on April 3, 2020 (Note 27(b)). The Company is a holding company incorporated in Cayman Islands on March 30, 2017 and conducts its business through its subsidiaries, variable interest entity ("VIE") and VIE's subsidiaries ("VIEs", also refer to VIE and its subsidiaries as a whole, where appropriate) (collectively, the "Group") in the People's Republic of China (the "PRC"). The Group is principally engaged in operating its own live streaming platforms, which enable broadcasters and viewers to interact with each other during live streaming. The themes of the Group's platforms are primarily game live streaming and life and entertainment topics beyond games to cater to the users' growing entertainment demands. In providing these services, the Group has cooperated with talent agencies to assist in broadcaster recruitment, live streaming training and support, promotion strategies development and content management under the Group's guidance and supervision. The Company generates the majority of its revenue from sales of virtual items in live streaming platforms as well as other services, which substantially consist of advertising and online games-related services. These services are referred to as the "Business". The Business was founded and operated by JOYY in 2014 and was transfer to Guangzhou Huya Information Technology Co., Ltd. ("Guangzhou Huya") effective from January 1, 2017 (the "Carve Out"). Subsequently, the Company completed a reorganization on July 10, 2017 ("Reorganization") and became the ultimate primary beneficiary of Guangzhou Huya through a series of contractual agreements (Note 1(d)).

(b) Public offering

The Company completed its IPO in May 2018, issued and sold a total of 17,250,000 American Depositary shares ("ADSs") for a total consideration of US$175.7 million after deducting the underwriting discounts and commissions and offering expenses. Upon the completion of the IPO, the Company's (1) 17,647,058 outstanding Series A-1 Preferred Shares were converted into Class A ordinary shares, (2) 4,411,765 outstanding Series A-2 Preferred Shares were converted into Class B ordinary shares, and (3) 64,488,235 outstanding Series B-2 Preferred Shares were converted into Class B ordinary shares immediately as of the same date.

In April 2019, the Company completed a follow-on public offering, issued and sold 13,600,000 ADSs for a total consideration of US$313.8 million after deducting the underwriting discounts and commissions and offering expenses. JOYY, as a selling shareholder, sold 4,800,000 Huya's ADSs. These 4,800,000 Class B ordinary shares were converted into Class A ordinary shares automatically.

(c) Principal subsidiaries and VIEs

As of December 31, 2019, the Company's principal subsidiaries and VIE are as follows:

Name	Place of incorporation	Date of incorporation	% of direct or indirect economic ownership	Principal activities
Wholly foreign-owned enterprise ("WFOE")				
Huya Limited	Hong Kong	January 4, 2017	100%	Investment holding
Guangzhou Huya Technology Co., Ltd. ("Huya Technology")	PRC	June 16, 2017	100%	Software development
HUYA PTE. LTD.	Singapore	July 23, 2018	100%	Internet value added services
VIE				
Guangzhou Huya Information Technology Co., Ltd.	PRC	August 10, 2016	100%	Internet value added services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

1. Organization and principal activities (continued)

(d) Variable interest entities

VIE agreements amongst Huya Technology, Guangzhou Huya and its nominee shareholders

To comply with PRC laws and regulations that prohibit or restrict foreign ownership of companies that provide internet-content, the Group conducts its operations primarily through its principal VIE, Guangzhou Huya, which hold the internet value-added service license and approvals to provide such internet services in the PRC. Contractual arrangements have been entered into among the Company's wholly owned subsidiary, Huya Technology, and Guangzhou Huya and its nominee shareholders. The Company obtained control over Guangzhou Huya through Huya Technology, which is a wholly owned subsidiary of the Company, by entering into a series of contractual arrangements with Guangzhou Huya and its nominee shareholders. To comply with PRC laws and regulations which prohibit or restrict foreign ownership of internet content, the nominee shareholders are legal owners of an entity. However, the rights of those nominee shareholders have been transferred to Huya Technology through such contractual arrangements. These contractual arrangements include exclusive purchase option agreements, exclusive business cooperation agreements, equity pledge agreements and powers of attorney. These contractual arrangements can be extended at the option of Huya Technology, prior to the expiration date. Management concluded that Huya Technology, through the contractual arrangements, has the power to direct the activities that most significantly impact Guangzhou Huya's economic performance, bears the risks of and enjoys the rewards normally associated with ownership of Guangzhou Huya, and therefore Guangzhou Huya is a VIE of Huya Technology, of which the Company is the ultimate primary beneficiary. Accordingly, the Company consolidates Guangzhou Huya's results of operations, assets and liabilities in the Group's consolidated financial statements pursuant to United States Generally Accepted Accounting Principles ("U.S. GAAP"). Refer to Note 2(b) to the consolidated financial statements for the principles of consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

1. Organization and principal activities (continued)

(d) Variable interest entities (continued)

VIE agreements amongst Huya Technology, Guangzhou Huya and its nominee shareholders (continued)

The following is a summary of the contractual arrangements entered among Huya Technology, Guangzhou Huya and its nominee shareholders.

- Exclusive Business Cooperation Agreement

Huya Technology and Guangzhou Huya entered into exclusive business cooperation agreement under which Guangzhou Huya engages Huya Technology as its exclusive provider of technology support, business support and consulting services. Guangzhou Huya shall pay to Huya Technology service fees, which is determined by Huya Technology at its sole discretion. Huya Technology shall have exclusive and proprietary rights and interests in all rights, ownership, interests and intellectual properties arising from the performance of the agreement. During the term of the agreement, Guangzhou Huya shall not accept any consultations and/or services provided by any third party and shall not cooperate with any third party for the provision of identical or similar services without prior consent of Huya Technology. The term of this agreement is ten years and will be extended for ten years automatically after expiration, unless otherwise agreed by both parties in a written agreement. Huya Technology is entitled to terminate the agreement at any time by providing 30 days' prior written notice to Guangzhou Huya. The service fees that the Company's WFOE and its subsidiaries charged to the VIE amounted to RMB8,547, RMB420,165, and RMB940,958, respectively, for the years ended December 31, 2017, 2018 and 2019, respectively.

- Exclusive Purchase Option Agreement

Under the exclusive purchase option agreement, the nominee shareholders of Guangzhou Huya have granted Huya Technology or its designated representative(s) irrevocably an exclusive option to purchase, to the extent permitted under PRC law, all or part of their equity interests in Guangzhou Huya at the lowest price permitted by the laws of the PRC applicable at the time of exercise. Huya Technology or its designated representative(s) have sole discretion as to when to exercise such options, either in part or in full. Without Huya Technology's prior written consent, the nominee shareholders shall not sell, transfer, mortgage or otherwise dispose their equity interests in Guangzhou Huya. The term of this agreement is ten years and may be extended for another ten years at Huya Technology's sole discretion. Huya Technology is entitled to terminate the agreement at any time by providing 30 days' prior written notice to Guangzhou Huya.

- Equity Pledge Agreement

Pursuant to the equity pledge agreement, the nominee shareholders of Guangzhou Huya have pledged all of their equity interests in Guangzhou Huya to Huya Technology to guarantee the performance by Guangzhou Huya and its nominee shareholders' performance of their respective obligations under the exclusive business cooperation agreement, exclusive purchase option agreement, and powers of attorney. The nominee shareholders shall not transfer or assign the equity interests, the rights and obligations in the equity pledge agreement or create or permit to create any pledges which may have an adverse effect on the rights or benefits of Huya Technology without Huya Technology's written consent. If Guangzhou Huya and/or its nominee shareholders breach their contractual obligations under those agreements, Huya Technology, as pledgee, will be entitled to sell the pledged equity interests.

- Power of Attorney

Pursuant to the irrevocable power of attorney, Huya Technology is authorized by each of the nominee shareholders as its attorney-in-fact to exercise such nominee shareholders' rights in Guangzhou Huya, including, without limitation, the power to vote on its behalf on all matters of Guangzhou Huya requiring nominee shareholder approval under PRC laws and regulations and the articles of association of Guangzhou Huya and rights to information relating to all business aspects of Guangzhou Huya. The term of this agreement is ten years and will be automatically extended for one more year indefinitely. Huya Technology has sole discretion to terminate the agreement at any time by providing 30 days' prior written notice to Guangzhou Huya.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

1. Organization and principal activities (continued)

(d) Variable interest entities (continued)

Risks in relation to the VIE structure

The Business was primarily conducted through Guangzhou Huya. The Company has become the primary beneficiary of Guangzhou Huya through contractual arrangements. In the opinion of management, the contractual arrangements with the VIE and the nominee shareholders are in compliance with PRC laws and regulations and are legally binding and enforceable. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations including those that govern the contractual arrangements, which could limit the Group's ability to enforce these contractual arrangements and if the nominee shareholders of the VIE were to reduce their interests in the Group, their interest may diverge from that of the Group and that may potentially increase the risk that they would seek to act contrary to the contractual arrangements. In March 2019, the National People's Congress enacted PRC Foreign Investment Law which would be effective starting from January 1, 2020. The Foreign Investment Law does not explicitly classify contractual arrangements as a form of foreign investment, but it contains a catch-all provision under the definition of "foreign investment", which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Existing laws or administrative regulations remain unclear whether the contractual arrangements with variable interest entities will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. However, the possibility that such entities will be deemed as foreign invested enterprise and subject to relevant restrictions in the future shall not be excluded. If variable interest entities fall within the definition of foreign investment entities, the Group's ability to use the contractual arrangements with its VIE and the Group's ability to conduct business through the VIE could be severely limited. The Group's ability to control the VIE also depends on the power of attorney that the wholly owned subsidiary of the Group has to vote on all matters requiring shareholder approval in the VIE. As noted above, the Group believes these power of attorney are legally enforceable but may not be as effective as direct equity ownership. In addition, if the Group's corporate structure and the contractual arrangements with the VIE through which the Group conducts its business in the PRC were found to be in violation of any existing or future PRC laws and regulations, the Group's relevant PRC regulatory authorities could:

- revoke or refuse to grant or renew the Group's business and operating licenses;
- restrict or prohibit related party transactions between the wholly owned subsidiary of the Group and the VIE;
- impose fines, confiscate income or other requirements which the Group may find difficult or impossible to comply with;
- require the Group to alter, discontinue or restrict its operations;
- restrict or prohibit the Group's ability to finance its operations, and;
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business.

The imposition of any of these restrictions or actions could result in a material adverse effect on the Group's ability to conduct its business. In such case, the Group may not be able to operate or control the VIE, which may result in deconsolidation of the VIE in the Group's consolidated financial statements. In the opinion of management, the likelihood for the Group to lose such ability is remote based on current facts and circumstances. The Group's operations depend on the VIE to honor their contractual arrangements with the Group. These contractual arrangements are governed by PRC law and disputes arising out of these agreements are expected to be decided by arbitration in the PRC. The management believes that each of the contractual arrangements constitutes valid and legally binding obligations of each party to such contractual arrangements under PRC laws. However, the interpretation and implementation of the laws and regulations in the PRC and their application to an effect on the legality, binding effect and enforceability of contracts are subject to the discretion of competent PRC authorities, and therefore there is no assurance that relevant PRC authorities will take the same position as the Group herein in respect of the legality, binding effect and enforceability of each of the contractual arrangements. Meanwhile, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to the Group to enforce the contractual arrangements should the VIE or the nominee shareholders of the VIE fail to perform their obligations under those arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

1. Organization and principal activities (continued)

(d) Variable interest entities (continued)

Risks in relation to the VIE structure (continued)

The following table sets forth the assets, liabilities, results of operations and cash flows of the VIEs taken as a whole, which were included in the Group's consolidated financial statements. Intercompany items within the Group are eliminated in the financial information presented below:

	As of December 31,	
	2018	2019
	RMB	RMB
Assets		
Current assets		
Cash and cash equivalents	668,531	437,930
Restricted cash	—	1,392
Short-term deposits	100,000	100,000
Short-term investments	300,162	1,209,255
Accounts receivable, net	43,469	48,699
Amounts due from related parties	237,112	41,208
Prepayments and other current assets	195,381	195,151
Total current assets	1,544,655	2,033,635
Non-current assets		
Deferred tax assets	30,945	42,044
Investments	219,827	379,424
Property and equipment, net	85,550	58,279
Intangible assets, net	51,979	45,085
Right of use assets, net	—	11,002
Prepayments and other non-current assets	115,689	99,131
Total non-current assets	503,990	634,965
Total assets	2,048,645	2,668,600
Liabilities		
Current liabilities		
Accounts payable	9,221	1,057
Deferred revenue	469,378	791,394
Advances from customers	14,403	50,961
Income taxes payable	—	20,397
Accrued liabilities and other current liabilities	786,612	989,274
Amounts due to related parties	31,722	77,169
Lease liabilities due within one year	—	5,418
Total current liabilities	1,311,336	1,935,670
Non-current liabilities		
Lease liabilities	—	4,800
Deferred revenue	80,734	164,913
Total non-current liabilities	80,734	169,713
Total liabilities	1,392,070	2,105,383

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

1. Organization and principal activities (continued)

(d) Variable interest entities (continued)

Risks in relation to the VIE structure (continued)

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Net revenues	2,177,587	4,659,245	8,293,317
Net (loss) income	(74,390)	406,803	1,323,915

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Net cash provided by operating activities	237,654	601,022	2,597,223
Net cash used in investing activities	(110,809)	(516,902)	(1,023,878)
Net cash provided by (used in) financing activities	266,913	(3,647)	(519)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies

(a) Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the U.S. GAAP to reflect the financial position, results of operations and cash flows of the Group. Significant accounting policies followed by the Group in the preparation of the consolidated financial statements are summarized below.

(b) Consolidation

The Group's consolidated financial statements include the financial statements of the Company, its subsidiaries and VIEs for which the Company or its subsidiary is the primary beneficiary. All transactions and balances among the Company, its subsidiaries and VIEs have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting powers; or has the power to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meeting of directors; or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A VIE is an entity in which the Company, or its subsidiary, through contractual agreements, bears the risks of, and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity. In determining whether the Company or its subsidiaries are the primary beneficiary, the Company considered whether it has the power to direct activities that are significant to the VIE's economic performance, and also the Company's obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Huya Technology and ultimately the Company hold all the variable interests of the VIEs and has been determined to be the primary beneficiary of the VIEs.

(c) Use of estimates

The preparation of the Company's consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, related disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period in the consolidated financial statements and accompanying notes. Actual results could differ materially from such estimates. The Company believes that assessment of whether the Group acts as a principal or an agent in different revenue streams, the determination of estimated selling prices of multiple element revenue contracts, income taxes, tax considerations for earnings retained in the Group's VIEs, and subsequent adjustment due to significant observable price change for the equity investments without readily determinable fair values and not accounted for by the equity method, represent critical accounting policies that reflect more significant judgments and estimates used in the preparation of its consolidated financial statements.

Management bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates.

(d) Foreign currency translation

The Group uses Renminbi ("RMB") as its reporting currency. The functional currency of the Company and its subsidiaries incorporated in Hong Kong, Cayman Islands and Singapore is United States dollar ("US$"), while the functional currency of the Group's entities in PRC is RMB, which is their respective local currency. In the consolidated financial statements, the financial information of the Company and its subsidiaries, which use US$ as their functional currency, have been translated into RMB. Assets and liabilities are translated at the exchange rates on the balance sheet date, equity amounts are translated at historical exchange rates, and revenues, expenses, gains, and losses are translated using the average exchange rate for the period. Translation adjustments arising from these are reported as foreign currency translation adjustments and are shown as a component of other comprehensive income in the statement of comprehensive (loss) income.

Foreign currency transactions denominated in currencies other than functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are remeasured at the applicable rates of exchange in effect at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from remeasurement at year-end are recognized in foreign currency exchange gains / losses, net in the consolidated statement of comprehensive (loss) income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(e) Convenience translation

Translations of amounts from RMB into US$ for the convenience of the reader were calculated at the noon buying rate of US$1.00 = RMB6.9618 on December 31, 2019 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into US$ at such rate.

(f) Cash and cash equivalents

Cash includes currency on hand and deposits held by financial institutions that can be added to or withdrawn without limitation. Cash equivalents represent short-term and highly liquid investments placed with banks, which have both of the following characteristics:

i) Readily convertible to known amounts of cash throughout the maturity period;

ii) So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

The Group considers all highly liquid investments with original maturities of three months or less as cash equivalents.

(g) Short-term deposits

Short-term deposits represent time deposits placed with banks with original maturities of more than three months but less than one year. Interest earned is recorded as interest income in the consolidated statement of comprehensive (loss) income during the years presented.

(h) Short-term investments

For investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, the Company elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair values are reflected in the consolidated statements of comprehensive (loss) income.

(i) Accounts receivable

Accounts receivable are stated at the historical carrying amount net of allowance for doubtful accounts. The Group uses specific identification in providing for bad debts when facts and circumstances indicate that collection is doubtful and a loss is probable and estimable. If the financial conditions of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

The Company maintains an allowance for doubtful accounts which reflects its best estimate of amounts that potentially will not be collected. The Company determines the allowance for doubtful accounts on an individual basis taking into consideration various factors including but not limited to historical collection experience and credit-worthiness of the debtors as well as the age of the individual receivables balance. Additionally, the Company makes specific bad debt provisions based on any specific knowledge the Company has acquired that might indicate that an account is uncollectible. The facts and circumstances of each account may require the Company to use substantial judgment in assessing its collectability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(j) Investment

Equity Investments without Readily Determinable Fair Values

The Company elected to record equity investments without readily determinable fair values and not accounted for by the equity method at cost, less impairment, adjusted for subsequent observable price changes, and will report changes in the carrying value of the equity investments in current earnings. Changes in the carrying value of the equity investment will be required to be made whenever there are observable price changes in orderly transactions for the identical or similar investment of the same issuer. The implementation guidance notes that an entity should make a "reasonable effort" to identify price changes that are known or that can reasonably be known.

Equity Investments Accounted for Using the Equity Method

The Group accounts for its equity investment over which it has significant influence but does not own a majority equity interest or otherwise control using the equity method. The Group adjusts the carrying amount of the investment and recognizes investment income or loss for share of the earnings or loss of the investee after the date of investment. The Group assesses its equity investment for other-than-temporary impairment by considering factors including, but not limited to, current economic and market conditions, operating performance of the entities, including current earnings trends and undiscounted cash flows, and other entity-specific information. The fair value determination, particularly for investment in privately held entities, requires judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investment and determination of whether any identified impairment is other-than-temporary.

(k) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Depreciation is calculated using the straight-line method over their estimated useful lives. Residual rate is determined based on the economic value of the property and equipment at the end of the estimated useful lives as a percentage of the original cost. Property and equipment mainly consist of servers, computers and equipment, leasehold improvements and others.

	Estimated useful lives	Residual rate
Servers, computers and equipment	3-5 years	0%-5%
Leasehold improvement	4-5 years	0%
Others	3-5 years	0%-5%

Expenditures for maintenance and repairs are expensed as incurred. The gain or loss on the disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statement of comprehensive (loss) income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(l) Intangible assets

Intangible assets mainly consist of license, copyrights of video content, domain names, software and trademark. Identifiable intangible assets are carried at acquisition cost less accumulated amortization and impairment loss, if any. Finite-lived intangible assets are tested for impairment if impairment indicators arise. Amortization of finite-lived intangible assets is computed using the straight-line method over their estimated useful lives, which are as follows:

	Estimated useful lives
License	15 years
Copyrights of video content	1 – 4 years
Domain names	15 years
Software	1 – 5 years
Trademark	5 years

(m) Impairment of long-lived assets

For long-lived assets other than investments whose impairment policy is discussed elsewhere in the financial statements, the Group evaluates for impairment whenever events or changes (triggering events) indicate that the carrying amount of an asset may no longer be recoverable. The Group assesses the recoverability of the long-lived assets by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to receive from use of the assets and their eventual disposition. Such assets are considered to be impaired if the sum of the expected undiscounted cash flows is less than the carrying amount of the assets. The impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The Group tests impairment of long-lived assets at the reporting unit level when impairment indicator appeared and recognizes impairment in the event that the carrying value exceeds the fair value of each reporting unit. For the years reported, the Group has only one reporting unit.

No impairment of long-lived assets was recognized for the years ended December 31, 2017, 2018 and 2019.

(n) Mezzanine equity

Mezzanine equity represents the Series A-1 Preferred Shares, Series A-2 Preferred Shares and Series B-2 Preferred Shares (collectively, the “Pre-IPO Preferred Shares”) issued by the Company prior to IPO. The Pre-IPO Preferred Shares are redeemable at the holders’ option any time after a certain date and were contingently redeemable upon the occurrence of certain liquidation events outside of the Company’s control. Therefore, the Group classifies the Pre-IPO Preferred Shares as mezzanine equity (Note 20).

In accordance with ASC 480-10, the mezzanine equity was initially measured based on its fair value at date of issue. Since the Pre-IPO Preferred Shares will be redeemable at the holder’s option 4 years from issuance if the Pre-IPO Preferred Shares are not converted, either voluntarily or automatically upon a qualified IPO. The Company accretes changes in the redemption value over the period from the date of issuance to the earliest redemption date of the instrument using the interest method.

Moreover, according to ASC-480-10-S99-2, where fair value at date of issue is less than the mandatory redemption amount, the carrying amount shall be increased by periodic accretions, using the interest method, so that the carrying amount will equal the mandatory redemption amount at the mandatory redemption date. Each type of increase in carrying amount shall be recorded as charges against retained earnings or, in the absence of retained earnings, by charges against additional paid-in capital. As such, the accretion to the carrying amount of preferred share is recognized at minimum rate per annum of issuance price and plus the dividend declared.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(o) Revenue

On January 1, 2018, the Group adopted ASC 606, "Revenue from Contracts with Customers" using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605. Based on the Company's assessment, the adoption of ASC 606 did not have any material impact to the Group's consolidated financial statements and there were no material differences between the Company's adoption of ASC 606 and its historic accounting under ASC 605.

Revenues are recognized when control of the promised virtual items or services is transferred to the Group's customers, in an amount that reflects the consideration the Group expects to be entitled to in exchange for those virtual items or services. The following table disaggregates the Group's revenue by major type for the years ended December 31, 2017, 2018 and 2019:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Live streaming	2,069,536	4,442,845	7,976,214
Other revenues (i)	115,280	220,595	398,287
Total	2,184,816	4,663,440	8,374,501

(i) Other revenues mainly include advertising and online games revenues.

Revenue recognition and significant judgments

(i) Live streaming

The Group is principally engaged in operating its own live streaming platforms, which enable broadcasters and viewers to interact with each other during live streaming. It generates revenue from sales of virtual items in the platforms. The Group has a recharge system for users to purchase the Group's virtual currency then purchase virtual items for use. Users can recharge via various online third-party payment platforms, including WeChat Pay, AliPay and other payment platforms. Virtual currency is non-refundable and without expiry. As the virtual currency is often consumed soon after it is purchased based on history of turnover of the virtual currency, the Group considers it does not expect to be entitled to a breakage amount for the virtual currency. Unconsumed virtual currency is recorded as deferred revenue. Virtual currencies used to purchase virtual items are recognized as revenue according to the prescribed revenue recognition policies of virtual items addressed below unless otherwise stated. The Group shares a portion of the sales proceeds of virtual items ("revenue sharing fee") with broadcasters and talent agencies in accordance with their revenue sharing arrangements. Broadcasters, who do not have revenue sharing arrangements with the Group, are not entitled to any revenue sharing fee.

The Group evaluates and determines that it is the principal and views users to be its customers. The Group reports live streaming revenues on a gross basis. Accordingly, the amounts billed to users are recorded as revenues and revenue sharing fee paid to broadcasters and talent agencies are recorded as cost of revenues. Where the Group is the principal, it controls the virtual items before they are transferred to users. Its control is evidenced by the Group's sole ability to monetize the virtual items before they are transferred to users, and is further supported by the Group being primarily responsible to users and having a level of discretion in establishing pricing.

The Group designs, creates and offers various virtual items for sales to users with pre-determined standalone selling price. Sales proceeds are recorded as deferred revenue and recognized as revenue based on the consumption of the virtual items. Virtual items are categorized as consumable and time-based items. Consumable items are consumed upon purchase and use while time-based items could be used for a fixed period of time. Users can purchase and present consumable items to broadcasters to show support for their favorite broadcasters, or purchase time-based virtual items for one or multiple months for a monthly fee, which provide users with recognized status, such as priority speaking rights or special symbols over a period of time. Revenue related to each of consumable items as a single performance obligation provided on a consumption basis, is recognized at the point in time when the virtual item is transferred directly to the users and consumed by them, while revenue related to time-based virtual items provided on a subscription basis is recognized ratably over the contract period. The Group does not have further performance obligations to the user after the virtual items are consumed immediately or after the stated contract period of time for time-based items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(o) Revenue (continued)

Revenue recognition and significant judgments (continued)

(i) Live streaming (continued)

The Group may also enter into contracts that can include various combinations of virtual items, which are generally capable of being distinct and accounted for as separate performance obligations, such as Huya Noble Member Program. Determining whether those virtual items are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. The contract of Huya Noble Member Program, which is normally purchased on a monthly basis, includes three major virtual items, a) the noble member status, b) the virtual currency coupons, and c) the right of subsequent renewal at a discounted price, which are considered distinct and accounted for separately under ASC 606. A noble member status itself cannot be purchased on a standalone basis, and it is used for one month but the users can simultaneously purchase multiple months of the package (with effective period of noble member status limited to a maximum of 24 months from date of purchase) at any point in time. The virtual currency coupons, which have the same purchase power as the Group's virtual currency but with expiry dates, is valid to purchase virtual items for a fixed period. Judgment is required to determine standalone selling price for each distinct performance obligation. The Group allocates the arrangement consideration to the separate accounting of each distinct performance obligation based on their relative standalone selling prices. In instances where standalone selling price is not directly observable as the Group does not sell the virtual item separately, such as the noble member status and the virtual currency coupons, the Group determines the standalone selling price based on pricing strategies, market factors and strategic objectives. In respect of the right of subsequent renewal at a discounted price, the Group estimates individual user's times of renewal based on historical data of users' spending pattern and average times of renewal. The Group recognizes revenue for each of the distinct performance obligations identified in accordance with the applicable revenue recognition method relevant for that obligation. For revenue allocated to noble member status, it's generally recognized ratably over the contract period as users simultaneously consume and receive benefits. For revenue related to virtual currency coupons provided on a consumption basis, virtual currency coupons used to purchase virtual items are recognized as revenue according to the prescribed revenue recognition policies of virtual items addressed above unless otherwise stated. Although the virtual currency coupons have expiry dates, the Group considers the impact of the breakage amount for virtual currency coupons is insignificant as historical data shows that virtual currency coupons are consumed shortly after they are released to users and the forfeiture rate remains relatively low for the periods reported, therefore, the Group does not expect to be entitled to a breakage amount for the virtual currency coupons. For the right of subsequent renewal at a discounted price, upon each time a subsequent renewal is purchased, the cash received is recorded as deferred revenue and allocated proportionally to the noble member status and virtual currency coupons based on their relative standalone selling price and revenue is then recognized following the revenue recognition method of noble member status and virtual currency coupons as described above.

As the Group's live streaming virtual items are generally sold without right of return and the Group does not provide any other credit and incentive to its users, therefore accounting of variable consideration when estimating the amount of revenue to recognize is not applicable to the Group's live streaming business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(o) Revenue (continued)

Revenue recognition and significant judgments (continued)

(ii) Advertising

The Group primarily generates advertising revenues primarily from sales of various forms of advertising and promotion campaigns, including (i) display advertisements in various areas of our platform, (ii) native advertisements in cooperation with broadcasters, and (iii) game events advertising and campaigns. Advertisements on the Group's platforms are generally charged on the basis of duration. Advertising contracts are signed to establish the fixed price and the advertising services to be provided. Where the service is transferred to customers, revenues from advertising contracts are recognized ratably over the contract period of display.

The Group enters into advertising contracts directly with advertisers or third-party advertising agencies that represent advertisers. Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 3 months. Both third-party advertising agencies and direct advertisers are generally billed at the end of the display period and payments are due usually within 3 months. In instances where the timing of revenue recognition differs from the timing of billing, the Group has determined the advertising contracts generally do not include a significant financing component. The primary purpose of the credits terms is to provide customers with simplified and predictable ways of purchasing the Group's advertising services, not to receive financing from its customers or to provide customers with financing.

Certain customers may receive sales incentives in the forms of discounts and rebates to advertisers or advertising agencies based on purchase volume, which are accounted for as variable consideration. The Group estimates these amounts based on the expected amount to be provided to customers considering the contracted rebate rates and estimated sales volume based on historical experience, and reduce revenues recognized. For the years ended December 31, 2017, 2018 and 2019, the amounts of discounts and rebates to advertising customers were RMB8,714, RMB21,796 and RMB63,622, respectively. The Group believes that there will not be significant changes to its estimates of variable consideration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(o) Revenue (continued)

Revenue recognition and significant judgments (continued)

(iii) Online games revenues

The Group generates revenues from offering virtual items in online games developed by the Group itself or third parties to game users. The Group has a recharge system for game user to purchase game tokens for use. Game user can recharge via various online third-party payment platforms, including WeChat Pay, AliPay and other payment platforms. Game tokens is non-refundable and without expiry. As the game token is often consumed soon after it is purchased based on history of turnover of the game token, the Group considers it does not expect to be entitled to a breakage amount for the game token.

The majority of online games revenues were derived from the Group's self-developed games for the years presented.

With respect to the game operation contracts entered into between the Group and distribution platforms for co-publishing or between the Group and users for self-publishing, the Group owns the games' copyrights and other intellectual property, and takes primary responsibilities of game development and game operation, including designing, development, and updating of the games including the game content, as well as the pricing of virtual items, providing on-going updates of new contents and bug fixing, determining the distribution platforms and payment channels, and providing customer services. Therefore, the Group considers itself to be the principal in these contracts and views users to be its customers. Revenues derived from self-developed games are recorded on a gross basis, and fees to be shared with distribution platforms and payment handling costs charged by payment platforms are recorded as cost of revenues.

Users play games free of charge and are charged for purchases of virtual items mainly including consumable and perpetual items, which can be utilized to enhance users' game-playing experience. Consumable items represent virtual items that can be consumed by a specific user within a specified period of time. Perpetual items represent virtual items that are accessible to the users' account over the life of the online games. The Group maintains information on consumption details of in-game virtual items, therefore, the Group recognizes revenues based on item-based model: (1) for consumable items, the revenue is recognized immediately upon consumption as the Group does not have further performance obligations to the user after the virtual items are consumed immediately; (2) for perpetual items, as the Group has responsibilities to ensure the game users can continue to gain access to the games to get the in-game experience and benefit after the sale of the perpetual items and the Group's service obligations are directly linked to each game user's engagement, therefore, the revenue from sales of perpetual items is recognized ratably over the user relationship period of a specific game as described below.

The estimated user relationship period is based on data collected from those game users who have purchased game tokens. The Group maintains a system that captures the following information for each game user: (a) the frequency that game users log into each game, and (b) the amount and the timing of when the game users charge his or her game token. The Group estimates the user relationship period for a particular game to be the date a user purchases a game token through the date the Group estimates the game user plays the game for the last time. This computation is completed on a user by user basis. Then, the results for all analyzed users are averaged to determine an estimated end user relationship period for each game. Revenues from in-game payments of each month are recognized over the user relationship period estimated for that game.

The determination of user relationship period is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. The Group assesses the estimated user relationships on a monthly basis. Any adjustments arising from changes in the user relationship as a result of new information will be accounted as a change in accounting estimate in accordance with ASC 250 Accounting Changes and Error Corrections.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(o) Revenue (continued)

Contract balances

The Group collects accounts receivable from various online payment platforms, advertising customers and distribution platforms. The allowance for doubtful accounts reflects the Group's best estimate of probable losses inherent in the accounts receivable balance. The Group determines the allowance based on known troubled accounts, historical experience, and other currently available evidence. The activity in the allowance for doubtful accounts for the years presented is disclosed and detailed in Note 8.

The opening balance of accounts receivable from third-party and related party payment platforms were RMB14,459 and RMB101,536, respectively, as of January 1, 2018. As of December 31, 2018 and 2019, accounts receivable from third-party payment platforms were RMB30,507 and RMB43,339, respectively, and accounts receivable from related parties as payment platforms were RMB239,290 and RMB31,261, respectively. No impairment was recognized for the years presented.

The opening balance of accounts receivable from third-party advertising customers was RMB13,673 as of January 1, 2018. As of December 31, 2018 and 2019, accounts receivable from third-party advertising customers were RMB11,323 and RMB15,313, respectively. No accounts receivable were from related party advertising customers as of January 1, 2018, and the balance of accounts receivable from a related party was RMB5,926 and RMB2,994, as of December 31, 2018 and 2019, respectively. During the years ended December 31, 2017, 2018 and 2019, the Group recognized impairments, net of recoveries, for accounts receivable from third-party advertising customers amounted to RMB500, RMB632 and nil, respectively.

The opening balance of accounts receivable from third-party distribution platforms as of January 1, 2018 was RMB2,215. As of December 31, 2018 and 2019, accounts receivable from third-party distribution platforms were RMB2,941 and RMB3,978, respectively. No accounts receivable were from related party distribution platforms as of January 1, 2018 and December 31, 2018, and the balance of accounts receivable from a related party as distribution platform was RMB687 as of December 31, 2019. No impairment was recognized for the years presented.

Contract liabilities primarily consists of deferred revenue for unconsumed virtual items and unamortized revenue from virtual items in the Group's platforms, where there is still an obligation to be provided by the Group, which will be recognized as revenue when all of the revenue recognition criteria are met.

The opening balance of deferred revenue related to live streaming business as of January 1, 2018 was RMB285,826. As of December 31, 2018 and 2019, deferred revenue related to live streaming business were RMB543,245 and RMB951,166, respectively. During the year ended December 31, 2017, 2018 and 2019, the Group recognized revenue of live streaming business amounted to RMB56,526, RMB240,802 and RMB462,511, respectively, that was included in the corresponding contract liability balance at the beginning of the years.

The opening balance of deferred revenue related to online games business and others as of January 1, 2018 was RMB2,617. As of December 31, 2018 and 2019, deferred revenue related to online games business and others were RMB6,867 and RMB8,752, respectively. During the year ended December 31, 2017, 2018 and 2019, the Group recognized revenue of online games business and others amounted to nil, RMB2,617 and RMB6,867, respectively, that was included in the corresponding contract liability balance at the beginning of the years.

During the year ended December 31, 2017, 2018 and 2019, the Group does not have any arrangement where the performance obligations have already been satisfied in the past year, but the corresponding revenue is only recognized in a later year.

As of December 31, 2019, the aggregate amount of the transaction price allocated to the remaining performance obligation is RMB959,918, the Company expects to recognize the remaining performance obligation as revenue as follows. However, the amount and timing of revenue recognition is largely driven by customer usage, which can extend beyond the original contractual term.

	2020	2021 and after	Total
	RMB	RMB	RMB
Revenue expected to be recognized	795,005	164,913	959,918

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(p) Cost of revenues

Amounts recorded as cost of revenue relate to direct expenses incurred in order to generate revenue. Such costs are recorded as incurred. Cost of revenues consists primarily of (i) revenue sharing fees and content costs, including payments to various broadcasters and content providers, (ii) bandwidth costs, (iii) salaries and welfare, (iv) payment handling costs, (v) depreciation and amortization expense for servers and other equipment, and intangibles directly related to operating the platform, (vi) share-based compensation, (vii) other taxes and surcharges, and (viii) other costs.

(q) Research and development expenses

Research and development expenses primarily consist of (i) salaries and welfare for research and development personnel, and (ii) share-based compensation for research and development personnel. Costs incurred during the research stage are expensed as incurred. Costs incurred in the development stage, prior to the establishment of technological feasibility, which is when a working model is available, are expensed when incurred.

The Company recognizes software development costs in accordance with guidance on intangible assets and internal use software. This requires capitalization of qualifying costs incurred during the software's application development stage and to expense costs as they are incurred during the preliminary project and post implementation/operation stages. The Company has not capitalized any costs related to internal use software during the years ended December 31, 2017, 2018 and 2019.

(r) Sales and marketing expenses

Sales and marketing expenses primarily consist of (i) advertising and market promotion expenses, (ii) salaries and welfare for sales and marketing personnel, and (iii) share-based compensation for sales and marketing personnel. The advertising and market promotion expenses amounted to RMB72,960, RMB155,709 and RMB353,829 for the years ended December 31, 2017, 2018 and 2019, respectively.

(s) General and administrative expenses

General and administrative expenses primarily consist of (i) share-based compensation for management and administrative personnel, and (ii) salaries and welfare for management and administrative personnel.

(t) Employee social security and welfare benefits

Employees of the Group in the PRC are entitled to staff welfare benefits including pension, work-related injury benefits, maternity insurance, medical insurance, unemployment benefit and housing fund plans through a PRC government-mandated multi-employer defined contribution plan. The Group is required to accrue for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group is required to make contributions to the plans out of the amounts accrued. The PRC government is responsible for the medical benefits and the pension liability to be paid to these employees and the Group's obligations are limited to the amounts contributed and no legal obligation beyond the contributions made. Employee social security and welfare benefits included as expenses in the accompanying statement of comprehensive (loss) income amounted to RMB48,312, RMB80,436 and RMB128,256 for the years ended December 31, 2017, 2018 and 2019, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(u) Share-based compensation

Share-based compensation expense arises from share-based awards, including restricted share units granted by JOYY with its own underlying shares to certain management and other key employees who to some extent provide services to the Group ("JOYY's Share-based Awards"), share options for the purchase of Huya's ordinary shares and Huya's restricted share units, granted by the Group to its management, key employees and non-employees ("Huya Share-based Awards") and ordinary shares granted to the Company's CEO by JOYY("CEO's Awards").

JOYY's Share-based Awards

In determining the fair value of restricted share units granted, the fair value of the underlying shares of JOYY on the grant dates is applied. The grant date fair value of restricted share units is based on stock price of JOYY in the NASDAQ Global Market.

Share-based compensation expense for restricted share units granted under JOYY share-based incentive plans is recognized using the graded vesting method, net of estimated forfeiture rates, over the requisite service period, which is generally the vesting period. Forfeitures are estimated at the time of grant based on historical forfeiture rates and will be revised in the subsequent periods if actual forfeitures differ from those estimates.

Huya's share options

Prior to the IPO date (Note 1(b)), in determining the fair value of share options granted, a binomial option-pricing model is applied. The determination of the fair value is affected by the fair value of the ordinary shares as well as assumptions regarding a number of complex and subjective variables, including risk-free interest rates, exercise multiples, expected forfeiture rates, the expected share price volatility rates, and expected dividends. Following the listing of the Company, the grant date fair value of share options is based on stock price of the Company's ordinary share in NYSE minus the respective exercise price.

Share-based compensation expense for share options granted to employees is measured based on their grant-date fair values and recognized over the requisite service period, which is generally the vesting period. The number of share-based awards for which the service is not expected to be rendered over the requisite period is estimated, and the related compensation expense is not recorded for the number of awards so estimated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(u) Share-based compensation (continued)

Huya's restricted share units

Fair value of restricted share units ("RSUs") is determined with reference to the fair value of the underlying shares.

Prior to the IPO, in determining the fair value of the ordinary shares granted, a combination of discounted cash flow method ("DCF") under income approach and guideline companies method ("GCM") under market approach is applied, with a discount for lack of marketability, given that the shares underlying the awards were not publicly traded at the time of grant. DCF method of the income approach involves applying appropriate weighted average cost of capital, or WACC, to discount the future cash flows forecast, based on the Company best estimates as of the valuation date, to present value. The WACC was determined based on a consideration of the factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systematic risk factors. GCM was also adopted under the market approach to arrive at an equity valuation for the Company. GCM employs trading multiples method of selected public comparable companies including trailing and leading Enterprise Value/Revenue multiples. Based on the Company current stage of development and the conceptual strength of the income approach, the Company assigned 50% weight to each of the income approach and the market approach for the valuation date.

After the completion of IPO, the fair value of restricted share units is determined with reference to stock price of Huya in NYSE.

CEO's Awards

The CEO's Awards were granted prior to the IPO. In determining the fair value of the ordinary shares granted, the method was the same as the determination of the fair value of the underlying shares of RSU.

Awards granted to non-employees

The Company adopted ASU 2018-07, Compensation-Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07") on January 1, 2019. The guidance aligns the accounting for non-employee equity based awards with the accounting for employee equity-based awards, and requires equity-classified share-based payment awards issued to non-employees to be measured based on the grant date price, rather than remeasure the awards through the performance completion date. The Company remeasured equity-classified awards for which a measurement date has not been established through a cumulative-effect adjustment to retained earnings as of January 1, 2019. Since the awards were measured at fair value as of December 31, 2018 prior to the adoption, the cumulative-effect adjustment arising from the adoption was immaterial.

The share-based compensation expense is recognized (i) immediately at the grant date if no vesting conditions are required, or (ii) using the graded-vesting attribution method, net of estimated forfeitures, over the requisite service period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(v) Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (Topic 842) “Leases”. Topic 842 supersedes the lease requirements in Accounting Standards Codification (ASC) Topic 840, “Leases”. Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. The Company adopted the new standard using the optional transition method beginning January 1, 2019. As permitted under the transition guidance, the Company carried forward the assessment of whether the existing contracts contain or are leases, classification of the leases and remaining lease terms. RMB92,075 of lease assets and RMB91,654 of liabilities were recognized on the balance sheet upon adoption as of January 1, 2019.

The Company categorize leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow lessee to substantially utilize or pay for the entire asset over its estimated life. Assets acquired under finance leases are recorded in property and equipment, net. All other leases are categorized as operating leases. All the leases recognized by the Company were classified as operating leases for the years presented.

Lease liabilities are recognized at the present value of the fixed lease payments using a discount rate based on similarly secured borrowings available to us. Lease assets are recognized based on the initial present value of the fixed lease payments plus any direct costs from executing the leases or lease prepayments reclassified from “Prepayments and other current assets” upon lease commencement. Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease.

(w) Income taxes

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are accounted for using an asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purpose. The effect on deferred taxes of a change in tax rates is recognized in statement of comprehensive (loss) income in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

Uncertain tax positions

The guidance on accounting for uncertainties in income taxes prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance was also provided on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. Significant judgment is required in evaluating the Group’s uncertain tax positions and determining its provision for income taxes. The Group recognizes interests and penalties, if any, under accrued expenses and other current liabilities on its balance sheet and under other expenses in its statement of comprehensive (loss) income. The Group did not recognize any interest and penalties associated with uncertain tax positions for the years ended December 31, 2017, 2018 and 2019. As of December 31, 2018 and 2019, the Group did not have any significant unrecognized uncertain tax positions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(x) Statutory reserves

The Group's PRC entities are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to China's Foreign Investment Enterprises, the Group's subsidiaries registered as WFOEs have to make appropriations from its after-tax profit (as determined under the Accounting Standards for Business Enterprises as promulgated by the Ministry of Finance of the People's Republic of China ("PRC GAAP")) to reserve funds including general reserve fund, and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the reserve fund has reached 50% of the registered capital of the company. Appropriation to the staff bonus and welfare fund is at the company's discretion.

In addition, in accordance with the Company Laws of the PRC, the Group's entities registered as PRC domestic companies must make appropriations from its after-tax profit as determined under the PRC GAAP to non-distributable reserve funds including a statutory surplus fund and a discretionary surplus fund. The appropriation to the statutory surplus fund must be at least 10% of the after-tax profits as determined under the PRC GAAP. Appropriation is not required if the surplus fund has reached 50% of the registered capital of the company. Appropriation to the discretionary surplus fund is made at the discretion of the company.

The use of the general reserve fund, statutory surplus fund and discretionary surplus fund are restricted to the off-setting of losses or increasing capital of the respective company. The staff bonus and welfare fund is a liability in nature and is restricted to fund payments of special bonus to staff and for the collective welfare of employees. All these reserves are not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

During the year ended December 31, 2017, 2018 and 2019, appropriations to general reserve fund and statutory surplus fund amounted to nil, RMB34,634 and RMB30,045, respectively.

(y) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence, such as a family member or relative, shareholder, or a related corporation.

(z) Dividends

Dividends are recognized when declared. No dividends were declared for the years ended December 31, 2017, 2018 and 2019. The Group does not have any present plan to pay any dividends on ordinary shares in the foreseeable future. The Group currently intends to retain the available funds and any future earnings to operate and expand its business.

(aa) (Loss) income per share

Basic (loss) income per share is computed by dividing net (loss) income attributable to ordinary shareholders, considering the accretion of redemption feature and deemed dividend related to the Company's redeemable convertible preferred shares (Note 20), by the weighted average number of ordinary shares outstanding during the period using the two-class method. Under the two-class method, net (loss) income is allocated between ordinary shares and other participating securities based on their participating rights. Net losses are not allocated to other participating securities if based on their contractual terms they are not obligated to share the losses.

Diluted (loss) income per share is calculated by dividing net (loss) income attributable to ordinary shareholders, as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of ordinary shares issuable upon the conversion of the preferred shares, using the if-converted method, and shares issuable upon the exercise of share options and the vesting of restrict share units using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted (loss) income per share calculation when inclusion of such share would be anti-dilutive.

(bb) Segment reporting

The Group's chief operating decision maker has been identified as its CEO, who reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole. Therefore, the Group has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reporting. The Group's long-lived assets are substantially all located in the PRC and substantially all of the Group's revenues are derived from the PRC. Therefore, no geographical segments are presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(cc) Recently issued accounting pronouncements

In June 2016, the FASB issued ASU 2016-13: Financial Instruments-Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Based on management's assessment, the adoption of ASU 2016-13 does not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this standard will remove, modify and add certain disclosures under ASC Topic 820, Fair Value Measurement, with the objective of improving disclosure effectiveness. ASU 2018-13 will be effective for the fiscal year beginning January 1, 2020, with early adoption permitted. The transition requirements are dependent upon each amendment within this update and will be applied either prospectively or retrospectively. The Company does not expect ASU 2018-13 to have a material impact to the Company's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

3. Certain risks

(a) Foreign exchange risk

The revenues and expenses of the Group's entities in the PRC are generally denominated in RMB and their assets and liabilities are denominated in RMB. The RMB is not freely convertible into foreign currencies. Remittances of foreign currencies into the PRC or remittances of RMB out of the PRC as well as exchange between RMB and foreign currencies require approval by foreign exchange administrative authorities and certain supporting documentation. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into other currencies.

(b) Credit risk

As of December 31, 2018 and 2019, substantially all of the Group's cash and cash equivalents and short-term deposits were placed with the PRC and international financial institutions. Management chooses these institutions because of their reputations and track records for stability, and their known large cash reserves, and management periodically reviews these institutions' reputations, track records, and reported reserves. Management expects that any additional institutions that the Group uses for its cash and bank deposits will be chosen with similar criteria for soundness. Nevertheless under the PRC law, it is required that a commercial bank in the PRC that holds third party cash deposits should maintain a certain percentage of total customer deposits taken in a statutory reserve fund for protecting the depositors' rights over their interests in deposited money. PRC banks are subject to a series of risk control regulatory standards; PRC bank regulatory authorities are empowered to take over the operation and management of any PRC bank that faces a material credit crisis. The Group believes that it is not exposed to unusual risks as these financial institutions are either PRC banks or international banks with high credit quality. The Group had not experienced any losses on its deposits of cash and cash equivalents and term deposits for the years ended December 31, 2017, 2018 and 2019 and believes that its credit risk to be minimal.

4. Cash and cash equivalents

Cash and cash equivalents represent cash on hand and demand deposits placed with banks or other financial institutions, and all highly liquid investments with maturities of three months or less. Cash and cash equivalents balance as of December 31, 2018 and 2019 primarily consist of the following currencies:

	December 31, 2018		December 31, 2019	
	Amount	RMB equivalent	Amount	RMB equivalent
RMB	678,610	678,610	475,991	475,991
US$	4,431	30,409	88,716	618,902
SGD$	—	—	3,537	18,300
Total		709,019		1,113,193

5. Restricted cash

Restricted cash represents deposits that was restricted for litigation. The deposits which was restricted cannot be withdrawn until the preservation of property has been lift. As of December 31, 2018 and 2019, the Group's restricted cash were nil and RMB1,392, respectively.

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6. Short-term deposits

Short-term deposits represent time deposits placed with banks with original maturities more than three months but less than one year. Short-term deposits balance as of December 31, 2018 and 2019 primarily consist of the following currencies:

	December 31, 2018		December 31, 2019	
	Amount	RMB equivalent	Amount	RMB equivalent
RMB	100,000	100,000	500,000	500,000
US$	711,573	4,883,825	894,964	6,243,445
Total		4,983,825		6,743,445

7. Short-term investments

	December 31, 2018		December 31, 2019	
	Amount	RMB equivalent	Amount	RMB equivalent
RMB	300,162	300,162	2,211,055	2,211,055
US$	—	—	1,215	8,476
Total		300,162		2,219,531

8. Accounts receivable, net

	December 31,	
	2018	2019
	RMB	RMB
Accounts receivable, gross	44,771	62,630
Less: allowance for doubtful receivables	(922)	(922)
Accounts receivable, net	43,849	61,708

The following table summarizes the details of the Company's allowance for doubtful accounts:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Balance at beginning of the year	—	(500)	(922)
Additions charged to general and administrative expenses, net of recoveries	(500)	(632)	—
Write-off during the year	—	210	—
Balance at end of the year	(500)	(922)	(922)

9. Prepayments and other current assets

	December 31,	
	2018	2019
	RMB	RMB
Prepayments to vendors and content providers	130,624	184,744
Interests receivable	123,333	168,739
Loan to a third party	—	10,000
Receivables from exercise of vested share options	—	9,475
Others	65,536	27,657
Total	319,493	400,615

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10. Investments

	December 31,	
	2018	2019
	RMB	RMB
Equity method investments (i)	203,627	203,730
Equity investments without readily determinable fair values (ii) (iii)	16,200	175,694
	219,827	379,424

(i) In April 2018, the Company, through Guangzhou Huya, together with Guangzhou Huaduo Network Technology Co., Ltd. ("Guangzhou Huaduo"), a consolidated VIE of JOYY, set up an onshore investment fund with capital injection amounted to RMB70,000 and RMB35,000, respectively. Both Guangzhou Huya and Guangzhou Huaduo are the limited partners of the fund with financial interest of 66% and 33% holding, respectively. Based on the Company's assessment under ASC 810-10-15-14, the investment fund is considered to be a VIE. The Company is not considered the primary beneficiary of the investment fund due to the fact that it's JOYY but not the Company to possess the power to direct activities of the investment fund that would most significantly impact its economic performance. As a result, JOYY is the primary beneficiary of the investment fund and then consolidates the fund, and the Company accounts for its 66% financial interest in the investment fund using the equity method of accounting pursuant to ASC 323-30 considering that the Company has significant influence over the partnership operating and financial policies.

The fund is set up to acquire 10.35% equity interest of a privately-held entity that engages primarily in developing and operating mobile games. This investment is not considered in-substance common stocks as the investment fund has liquidation preference over ordinary shareholders of this investee and therefore has been precluded from applying the equity method of accounting. The investment fund elected to account for this investment at cost less impairments, adjusted by observable price changes, since this investment is without readily determinable fair value. In June 2018, there was a share transfer transaction from one existing shareholder of the investment fund's investee to a third-party new shareholder with observable price. The Company assessed whether the security transferred in the observable transaction is similar to the equity security held by the investment fund according to ASC 321-10-55-9 and due to the fact that only limited differences related to preference order in terms of the rights and obligations existed between the securities, the Company considered the transferred shares to be "similar" to the securities held by the investment fund. Accordingly, the Company adjusted the observable price of the similar security for the limited differences in the rights and obligations to determine the amount that should be recorded as an upward adjustment in the carrying value of the security measured in accordance with ASC 321-10-35-2 to reflect the current fair value of the security held by the fund by using the back-solve method based on the equity allocation model with adoption of some key parameters, but most of which were observable such as risk-free rate and equity volatility.

For the year ended December 31, 2018, the Company recognized the share of cumulative income of this equity method investment with amount of RMB133,319 mainly attributable to the subsequent adjustment for significant observable price change for fund's investment in that privately-held entity measured at fair value through earnings. Accordingly, deferred tax liabilities amounted to RMB19,998 were recognized in relation to the unrecognized fair value change through earnings.

For the year ended December 31, 2019, there was no subsequent observable price change for fund's investment in that privately-held entity measured at fair value through earnings. Therefore, the Company did not recognized any fair value change through earnings.

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10. Investments (continued)

(ii) In February 2018, the Company disposed of an investment carried at RMB10,000, previously accounted for under cost method. There were no observable price change from the adoption of new financial instruments accounting standard to the disposal date. The total cash consideration upon disposal was RMB10,000, and no disposal gain (loss) was recognized.

(iii) In 2018 and 2019, the Company acquired equity interests of three and five privately-held entities that engages primarily in the business of broadcaster management with a total consideration of RMB16,200 and RMB 159,494, respectively.

The Company has neither significant influence nor control in these investees. These equity investments are not considered as debt securities or equity securities that have readily determinable fair values. Accordingly the Company elected to account for these investments at cost less impairments, adjusted by observable price changes. There was no observable price change for the year ended December 31, 2018 and 2019, respectively.

11. Property and equipment, net

Property and equipment consists of the following:

	December 31,	
	2018	2019
	RMB	RMB
Gross carrying amount		
Servers, computers and equipment	126,896	142,236
Leasehold improvement	—	32,038
Others	4,031	10,603
Total	130,927	184,877
Less: accumulated depreciation	(43,508)	(88,191)
Property and equipment, net	87,419	96,686

Depreciation expense for the years ended December 31, 2017, 2018 and 2019 were RMB6,864, RMB26,818 and RMB45,455, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

12. Intangible assets, net

The following table summarizes the Group's intangible assets:

	December 31,	
	2018	2019
	RMB	RMB
Gross carrying amount		
License	32,000	32,000
Copyrights of video content	20,922	30,021
Domain names	5,120	5,120
Software	2,038	3,125
Trademark	1,132	1,132
Total of gross carrying amount	61,212	71,398
Less: accumulated amortization		
License	(1,422)	(3,556)
Copyrights of video content	(5,180)	(17,689)
Domain names	(1,271)	(1,613)
Software	(888)	(2,756)
Trademark	(472)	(699)
Total accumulated amortization	(9,233)	(26,313)
Intangible assets, net	51,979	45,085

Amortization expense for the years ended December 31, 2017, 2018 and 2019 were RMB804, RMB8,224 and RMB17,080, respectively.

As of December 31, 2019, intangible assets amortization expense for future years is expected to be as follows:

Year ended December 31,	Amortization expense of intangible assets RMB
2020	12,771
2021	5,235
2022	2,536
2023	2,490
2024	2,475

The weighted average amortization periods of intangible assets as of December 31, 2018 and 2019 are as below:

	December 31,	
	2018	2019
License	15 years	15 years
Copyrights of video content	2 years	2 years
Domain names	15 years	15 years
Software	1 year	1 year
Trademark	5 years	5 years

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(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

13. Prepayments and other non-current assets

	December 31,	
	2018	2019
	RMB	RMB
Prepayments to vendors and content providers	43,488	93,502
Refundable lease deposits	3,987	4,826
Prepayments for equity investments	67,250	2,000
Others	6,105	4,567
Total	120,830	104,895

14. Deferred revenue

	December 31,	
	2018	2019
	RMB	RMB
Deferred revenue, current:		
Live streaming	462,511	786,253
Others	6,867	8,752
Total current deferred revenue	469,378	795,005
Deferred revenue, non-current:		
Live streaming	80,734	164,913
Total non-current deferred revenue	80,734	164,913

15. Accrued liabilities and other current liabilities

	December 31,	
	2018	2019
	RMB	RMB
Revenue sharing fees	567,497	817,792
Salaries and welfare	88,713	251,914
Bandwidth costs	76,028	167,793
Marketing and promotion expenses	39,434	61,210
License fees	17,993	48,138
Deposits from content providers, suppliers and advertising customers	25,615	47,386
Other taxes payable	15,874	40,349
Others	21,617	25,443
Total	852,771	1,460,025

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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16. Cost of revenues

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Revenue sharing fees and content costs	1,394,832	3,060,836	5,552,712
Bandwidth costs	411,027	652,758	800,827
Salaries and welfare	52,372	101,939	255,258
Payment handling costs	14,071	22,780	120,429
Depreciation and amortization	32,562	26,697	40,082
Share-based compensation	2,877	10,472	31,593
Other taxes and surcharges	8,283	14,747	22,694
Others	13,840	43,418	68,984
Total	1,929,864	3,933,647	6,892,579

17. Other income

Other income primarily comprised of gains recognized for the transfer to third parties of the exclusive cooperation rights of broadcasters and government grants which represent cash subsidies received from the PRC government by the Group entities. Government grants are originally recorded as deferred revenue when received upfront. After all of the conditions specified in the grants have been met, the grants are recognized as other income.

18. Taxation

(a) PRC value-added tax and related surcharges

The Group is subject to value-added tax (“VAT”) and related surcharges on the revenues earned for services provided in the PRC. Net revenues are presented after netting off the VAT. The primary applicable rate of VAT is 6% for the years ended December 31, 2017, 2018 and 2019. The surcharges are calculated based on 12% of VAT paid.

(b) Income taxes

(i) Cayman Islands

Under the current tax laws of Cayman Islands, the Company and its subsidiaries are not subject to tax on income or capital gains. Besides, upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

(ii) Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the subsidiary of the Group in Hong Kong are subject to 8.25% and 16.5% Hong Kong profit tax on its taxable income within HKD$2 million and beyond HKD$2 million, respectively. Payments of dividends are not subject to any withholding tax.

(iii) Singapore

The income tax provision of the Group in respect of its international operations was calculated at the tax rate of 17% on the assessable profits based on the existing legislation, interpretations and practices in respect thereof.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

18. Taxation (continued)

(b) Income taxes (continued)

(iv) PRC

In accordance with the Enterprise Income Tax Law ("EIT Law"), Foreign Investment Enterprises ("FIEs") and domestic companies are subject to Enterprise Income Tax ("EIT") at a uniform rate of 25%. The subsidiaries and VIEs of the Group in the PRC are subject to a uniform income tax rate of 25% for years presented.

Certified High and New Technology Enterprises ("HNTE") are entitled to a preferential tax rate of 15%, but need to re-apply every three years. During this three year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification as an HNTE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% EIT rate.

Qualified software enterprises ("Software Enterprise") are exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first profit making year. An entity that qualifies as a "Key National Software Enterprise" (a "KNSE") is entitled to a further reduced preferential income tax rate of 10%. Entities must perform a self-assessment each year to ensure they meet the criteria for qualification, pursuant to SAT Public Notice [2018] No.23 ("Circular 23"). If a KNSE fails to meet the criteria for qualification as a KNSE in any year, the entity cannot enjoy the 10% preferential tax rate in that year.

The Group's PRC entities provided for enterprise income tax are as follows:

- Huya Technology was qualified as a Software Enterprise, and enjoyed the zero preferential tax rate starting from 2017 and 12.5% preferential tax rate starting from 2019. In 2019, Huya Technology is qualified as a KNSE and applied the income tax rate of 10% for the year of 2019 pursuant to SAT Public Notice [2018] No.23 ("Circular 23").
- Guangzhou Huya applied for the HNTE qualification and obtained approval in November 2018. It entitled to enjoy the preferential tax rate of 15% as an HNTE for three years starting from 2018, and should apply for HNTE qualification renewal in 2021.
- Most of the remaining PRC subsidiaries and VIEs were subject to 25% EIT for the years reported.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction amounting to 50% of the qualified research and development expenses incurred in determining its tax assessable profits for that year. The additional tax deducting amount of the qualified research and development expenses have been increased from 50% to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018 ("Super Deduction").

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose "de facto management body" is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the EIT Law merely define the location of the "de facto management body" as "the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located." Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its entities registered outside of the PRC should be considered as resident enterprises for the PRC tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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18. Taxation (continued)

(b) Income taxes (continued)

(iv) PRC (continued)

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between the mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the immediate holding company in Hong Kong is the beneficial owner of the FIE and owns directly at least 25% of the shares of the FIE). In accordance with accounting guidance, all undistributed earnings are presumed to be transferred to the parent company and withholding taxes should be accrued accordingly. All FIEs are subject to the withholding tax from January 1, 2008. The presumption may be overcome if the Group has sufficient evidence to demonstrate that the undistributed dividends will be re-invested and the remittance of the dividends will be postponed indefinitely.

Aggregate undistributed earnings and reserves of the Group entities located in the PRC that are available for distribution to the Company as of December 31, 2018 and 2019 are approximately RMB516,021 and RMB1,427,888, respectively. The undistributed earnings and reserves of the Group entities located in the PRC are considered to be indefinitely reinvested, because the Group does not have any present plan to pay any cash dividends on its ordinary shares in the foreseeable future and intends to retain most of its available funds and any future earnings for use in the operation and expansion of its business. Accordingly, no deferred tax liability on 10% WHT of aggregate undistributed earnings and reserves of the Company's entities located in the PRC has been accrued that would be payable upon the distribution of those amounts to the Company as of December 31, 2019.

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18. Taxation (continued)

(b) Income taxes (continued)

Composition of income tax benefits (expenses)

(Loss) income before income tax benefits (expenses) for the years ended December 31, 2017, 2018 and 2019 were taxed within the following jurisdictions:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
PRC entities	(79,849)	169,320	796,062
Non PRC entities (i)	(968)	(2,271,281)	(229,036)
Total	(80,817)	(2,101,961)	567,026

(i) The loss before tax incurred by non-PRC entities for the year ended December 31, 2018 was mainly due to the fair value loss on derivative liabilities amounting to RMB2,285,223.

The loss before tax incurred by non-PRC entities for the year ended December 31, 2019 was mainly that oversea business is still in the initial stage of development.

The current and deferred portion of income tax benefits (expenses) included in the consolidated statements of comprehensive (loss) income for the years ended December 31, 2017, 2018 and 2019 are as follows:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Income tax benefits (expenses) applicable to China operations			
Current income tax expenses	—	—	(110,408)
Deferred income tax benefits (i)	—	50,943	14,871
Subtotal income tax benefits (expenses) applicable to China operations	—	50,943	(95,537)
Income tax expenses applicable to Non PRC operations			
Current income tax expenses	—	—	(541)
Total income tax benefits (expenses)	—	50,943	(96,078)

(i) For the year ended December 31, 2017, the Group has incurred net accumulated operating losses since inception. As of December 31, 2017, the Group believed that it is more likely than not that these net accumulated operating losses and other deferred tax assets would not be utilized. Therefore, the Group has provided full valuation allowances for the deferred tax assets as of December 31, 2017.

For the year ended December 31, 2018, the VIE has utilized all the deductible temporary differences and the accumulated tax loss brought forward. As of December 31, 2018, considering the sustained profitability of the VIE, the Group assessed that it is more likely than not the deferred tax assets would be utilized in the future. Therefore, the Group has not provided any valuation allowance for the deferred tax assets of the VIE and relevant deferred tax benefits were recognized for the year ended December 31, 2018.

As of December 31, 2019, considering the sustained profitability of the VIE, the Group believed that it is more likely than not that most of the deferred tax assets would be utilized in the future so that no valuation allowance was made against such deferred tax assets.

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18. Taxation (continued)

(b) Income taxes (continued)

Reconciliation of the differences between statutory tax rate and the effective tax rate

The reconciliation of total tax benefits (expenses) computed by applying the respective statutory income tax rate to pre-tax income is as follows:

	For the year ended December 31,		
	2017	2018	2019
PRC Statutory income tax rate	(25.0)%	(25.0)%	(25.0)%
Effect of tax holiday and preferential tax benefit	(0.4)%	(2.2)%	18.9%
Effect of different tax rates available to different jurisdictions (i)	1.4%	26.0%	3.3%
Permanent differences (ii)	0.2%	1.5%	(6.7)%
Change in valuation allowance	45.5%	(1.7)%	(15.8)%
Effect of Super Deduction available to the Group	(21.7)%	(1.0)%	8.3%
Effective income tax rate	—	(2.4)%	(17.0)%
Effect of tax holidays inside the PRC on basic earnings per share/ADS (RMB)	—	0.24	0.42

(i) For the year ended December 31, 2017, effect of different tax rates available to different jurisdictions is mainly driven by the interest income derived from short term deposits which are subject to an income tax rate of 0% under the tax laws of Cayman Islands.

For the year ended December 31, 2018, effect of different tax rates available to different jurisdictions is mainly driven by the fair value loss of derivatives liabilities recognized in relation to the conversion features of the Pre-IPO Preferred Shares (Note 20) in HUYA which is subject to an income tax rate of 0% under the tax laws of Cayman Islands.

For the year ended December 31, 2019, effect of different tax rates available to different jurisdictions is mainly driven by the interest income derived from short term deposit which is subject to an income tax rate of 0% under the tax laws of Cayman Islands, partially offset by the losses arising from overseas business which is subject to an income tax rate of 17% under the tax laws of Singapore.

(ii) Permanent differences mainly arise from expenses not deductible for tax purposes including primarily share-based compensation costs and expenses incurred by subsidiaries and VIEs.

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18. Taxation (continued)

(b) Income taxes (continued)

Deferred tax assets and liabilities

Deferred taxes are measured using the enacted tax rates for the years in which they are expected to be reversed. The tax effects of temporary differences that give rise to the deferred tax asset balances as of December 31, 2018 and 2019 are as follows:

	December 31,	
	2018	2019
	RMB	RMB
Deferred tax assets		
Tax loss carried forward	21,957	97,795
Deferred revenue	36,007	62,410
Others	14,878	246
	72,842	160,451
Less: Valuation allowance (i)	(21,899)	(94,637)
Total deferred tax assets	50,943	65,814
Deferred tax liabilities		
Related to the fair value change of equity investee's investments	19,998	19,998
Total deferred tax liabilities	19,998	19,998
Net deferred tax assets	30,945	45,816

(i) Valuation allowance is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group considered factors including future taxable income exclusive of reversing temporary differences and tax loss carry forwards. Valuation allowance as of December 31, 2018 and 2019 were provided for net operating loss carry forward, which was mainly incurred by the overseas subsidiaries, because such deferred tax assets are not more likely than not to be realized based on the Group's estimate of its future taxable income. If events occur in the future that allow the Group to realize more of its deferred income tax than the presently recorded amounts, an adjustment to the valuation allowances will result in a decrease in tax expense when those events occur.

Movement of valuation allowance

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Balance at beginning of the year	376,087	57,756	21,899
Additions	36,772	21,662	89,002
Reversals/write-off	(355,103)	(57,519)	(16,264)
Balance at end of the year	57,756	21,899	94,637

Tax loss carry forwards

As of December 31, 2019, total tax loss carried forwards of the Company's subsidiaries and VIEs in the PRC amounted to RMB70,752, which were expected to expire if not used between 2020 and 2024. The accumulated tax losses of subsidiaries incorporated in Singapore, subject to the agreement of the relevant tax authorities, of RMB469,619, is allowed to be carried forward to offset against future taxable profits. Such carry forward of tax losses in Singapore has no time limit.

In accordance with PRC Tax Administration Law on the Levying and Collection of Taxes, the PRC tax authorities generally have up to five years to claw back underpaid tax plus penalties and interest for PRC entities' tax filings. In the case of tax evasion, which is not clearly defined in the law, there is no limitation on the tax years open for investigation. There were no ongoing examinations by tax authorities as of December 31, 2019.

Uncertain tax positions

The Group evaluates the level of authority for each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measures the unrecognized benefits associated with the tax positions. As of December 31, 2018 and 2019, the Group did not have any significant unrecognized uncertain tax positions.

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19. Ordinary shares

On March 30, 2017, the Company issued ordinary shares to JOYY in connection with the Reorganization. 100,000,000 ordinary shares were issued and outstanding upon the completion of the Reorganization, which are held by JOYY. In October 2017, both of JOYY's and the Company's board of directors approved that: (1) JOYY transfer, at nominal consideration, 992,456 ordinary shares of the Company to ROSY BAY LIMITED, the economic interests of which are substantially owned by certain officers of JOYY, for these officers' services provided to JOYY; and (2) JOYY transfer, at nominal consideration, 559,039 ordinary shares of the Company to ALL WORTH LIMITED, which is beneficially owned by the CEO of the Company, for his service provided to the Company. As detailed in Note 20, upon closing of the issuance of Series B-2 Preferred Shares on March 8, 2018, the Company adopted a dual voting structure on its shares and the Company's ordinary shares were divided into Class A and Class B ordinary shares, accordingly, the Company's issued and outstanding ordinary shares as of December 31, 2017 were divided into 992,456 Class A ordinary shares and 99,007,544 Class B ordinary shares. The Company's authorized ordinary shares has been revised as 348,964,707 shares, including 249,957,163 Class A ordinary shares and 99,007,544 Class B ordinary shares.

On March 20, 2018 and March 22, 2018, JOYY sold its 1,397,059 Class B ordinary shares to one of the holders of the Series A-1 Preferred Shares and 6,985,294 Class B ordinary shares to one third-party investor at a price of US$7.16 per share. Such Class B ordinary shares were automatically converted into an equal number of Class A ordinary shares.

On April 27, 2018, JOYY transferred, at nominal consideration, its 367,870 Class B ordinary shares to Savvy Direction Limited, the economic interests of which are substantially owned by one officer of JOYY, for his services provided to JOYY. Such Class B ordinary shares were automatically converted into an equal number of Class A ordinary shares.

Upon the completion of the Company's IPO (Note 1(b)), the Company authorized (i) 750,000,000 Class A ordinary shares of par value US$0.0001 each, and (ii) 200,000,000 Class B ordinary shares of par value US$0.0001 each. Holders of Class A ordinary shares and Class B ordinary shares have the same rights, except for voting rights and conversion rights. Holders of Class A ordinary shares are entitled to one vote per share in all shareholders' meetings, while holders of Class B ordinary shares are entitled to ten votes per share. Each Class B ordinary share is convertible into one Class A ordinary share at any time at the discretion of the Class B shareholders thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

Upon the completion of the Company's IPO (Note 1(b)), (i) the Company issued 17,250,000 Class A ordinary shares, (ii) Series A-1 Preferred Shares and 4,411,765 Series A-2 Preferred Shares were converted into Class A ordinary shares and Class B ordinary shares, respectively, and (iii) 64,488,235 Series B-2 Preferred Shares were converted into Class B ordinary shares.

As of December 31, 2018, 44,639,737 Class A ordinary shares and 159,157,321 Class B ordinary shares had been issued and outstanding, respectively.

Upon the follow-on public offering in April 2019, the Company issued 13,600,000 Class A ordinary shares.

During the year ended December 31, 2019, 2,061,577 Class A ordinary shares were issued for the exercised share options and vested restricted share units. Besides, 6,800,000 Class B ordinary shares were converted to Class A ordinary shares.

As of December 31, 2019, 67,101,314 Class A ordinary shares and 152,357,321 Class B ordinary shares had been issued and outstanding, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

20. Redeemable convertible preferred shares

Issuance of Series A Preferred Shares

On May 16, 2017, the Company entered into a Series A Preferred Shares subscription agreement with the Series A investors and pursuant to which, the Company issued 22,058,823 shares of Series A Preferred Shares at a price of US$3.4 per share with total cash consideration of US$75,000 (equivalent to RMB509,730 as of the issuance date). The issuance of the Series A Preferred Shares was completed on July 10, 2017.

The key terms of the Series A Preferred Shares are summarized as follows:

Dividends rights

Holders of the Series A Preferred Shares shall be entitled to receive preferential dividends, payable out of funds or assets when and as such funds or assets become legally available therefor on parity with each other, when, as, and if declared by the Board of Directors, at a non-cumulative rate of at least 8% per annum, prior and in preference to the holders of any other class or series of shares, additionally, the holders of Series A Preferred Shares shall be entitled to receive dividends at the rate no less than the rate for the holders of any other class or series of shares (calculated on an as converted basis).

Conversion feature

Each Series A Preferred Share shall be convertible at the option of the holder thereof, at any time after the Series A issue date into such number of fully paid and non-assessable ordinary share as determined by dividing the Series A issue price by the then-effective applicable Series A conversion price. Upon the closing of a qualified IPO, each Series A Preferred Share shall automatically be converted into fully-paid and non-assessable ordinary shares based on the then-effective Series A conversion price. The “Series A conversion price” as of the date of issuance of the Series A Preferred Shares shall initially be the Series A issue price, resulting in an initial conversion ratio for the Series A Preferred Shares of 1:1, and thereafter shall be subject to adjustment and readjustment from time to time as hereinafter provided, being no less than the par value. Adjustments of conversion ratios include the following: adjustment for share splits and combinations, adjustment for ordinary share dividends and distributions, adjustments for other dividends, adjustments for reorganizations, mergers, consolidations, reclassifications, exchanges, substitutions and adjustments to Series A conversion price for dilutive issuance (dilutive issuance means the event of an issuance of new securities, at any time after the issuance date of the Series A Preferred Shares, for a consideration per ordinary share received by the Company (net of any selling concessions, discounts or commissions) less than conversion price of the Series A Preferred Shares in effect immediately prior to such issue.

Redemption feature

At any time and from time to time after the fourth (4th) anniversary of the date of issuance of the Series A Preferred Shares (the “Redemption Date”), upon written notice of the holders of fifty percent (50%) or more of the then issued and outstanding Series A Preferred Shares, the Company shall redeem all or a portion of the Series A Preferred Shares held by such holders at the Series A Redemption Price (as defined below), provided that (a) a qualified IPO, (b) the liquidation, dissolution or winding up of Huya and (c) a deemed liquidation event has not been consummated by the Company by the Redemption Date.

The “Series A Redemption Price” for each Series A Preferred Share redeemed shall be 100% of the Series A issue price plus accrued daily interest (on the basis of a 365-day year basis) at a rate of eight percent (8%) per annum and any declared but unpaid dividends on such Series A Preferred Share.

If the Company’s assets or funds legally available for any redemption of Series A Preferred Shares shall be insufficient to permit the payment of the applicable Series A Redemption Price in full in respect of each redeeming Series A Preferred Share, with respect to any remaining Series A Preferred Shares to be redeemed, each of the redeeming holders of the Series A Preferred Shares may choose to request the Company to (and the Company upon such request shall) execute and deliver to such redeeming holder a convertible promissory note (the “Convertible Note”) for the full amount of the redemption payment due but not paid to such holder; provided, that such Convertible Note shall be due and payable no later than twelve months of the redemption closing date, the full amount due under such Convertible Note shall accrue interest daily (on the basis of a 365-day year) at a rate of eight percent (8%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

20. Redeemable convertible preferred shares (continued)

Issuance of Series A Preferred Shares (continued)

Voting rights

The holder of a Series A Preferred Share shall be entitled to such number of votes as equals the whole number of ordinary shares into which such holder's collective Series A Preferred Shares are convertible immediately.

Liquidation preferences

In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, all assets and funds of the Company legally available for distribution to the members (after satisfaction of all creditors' claims and claims that may be preferred by Law) shall be distributed to the members of Huya as follows:

(1) First, the holders of the Series A Preferred Shares shall be entitled to receive for each Series A Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, an amount equal to the sum of (i) 100% of the Series A issue price, and (ii) any and all accrued or declared but unpaid dividends on such Series A Preferred Shares (collectively, the "Series A Preference Amount").

If the assets and funds thus distributed among the holders of the Series A Preferred Shares shall be insufficient to permit the payment to such holders of the full Series A Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Shares in proportion to the aggregate Series A Preference Amount each such holder is otherwise entitled to receive pursuant to this subparagraph (1).

(2) If there are any assets or funds remaining after the Series A Preference Amount has been distributed or paid in full to the applicable Series A preferred shareholders pursuant to subparagraph (1) above, the remaining assets and funds of the Company available for distribution to the members shall be distributed ratably among all members according to the relative number of ordinary shares held by such member (treating for this subparagraph (2) all Series A Preferred Shares as if they had been converted to ordinary shares immediately prior to such liquidation, dissolution or winding up of the Company).

Accounting of Series A Preferred Shares

The Company classified the Series A Preferred Shares as mezzanine equity in the consolidated balance sheets because they were redeemable at the holders' option any time after a certain date and were contingently redeemable upon the occurrence of certain liquidation events outside of the Company's control. The Preferred Shares are recorded initially at fair value, net of issuance costs.

As holders of the Series A Preferred Shares who exercise the redemption rights are allowed to request the Company to issue a convertible note if the Company's assets or funds legally available for redemption are insufficient, the host contract is considered to be a debt host. The Company determined that there were no embedded derivatives requiring bifurcation from the host contract. The redemption feature is considered clearly and closely related to the host contract. While the conversion feature is not clearly and closely related to the host contract, no bifurcation is required as the conversion feature does not meet the definition of a derivative because the terms of the contracts do not require or explicitly state that it permits net settlement for the conversion feature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

20. Redeemable convertible preferred shares (continued)

Issuance of Series B-2 Preferred Shares and modification of the Series A Preferred Shares

On March 8, 2018, the Company issued 64,488,235 shares of Series B-2 Preferred Shares at a price of approximately US$7.16 per share for cash consideration of US$461,600 (equivalent to RMB2,919,112 as of the issuance date) to Linen Investment Limited, a wholly-owned subsidiary of Tencent Holdings Limited ("Tencent", also refer to Tencent's consolidated operating entities, where appropriate), representing an equity interest of 34.6% of the Company on an as-converted basis (the "Transaction"). Upon the closing of the Transaction, the Company's Series A Preferred Shares were divided into 17,647,058 Series A-1 Preferred Shares and 4,411,765 Series A-2 Preferred Shares.

The key terms of the Series B-2 Preferred Shares are summarized as follows:

Dividends rights

When, as, and if a dividend is declared by the board of directors, holders of the Series B-2 Preferred Shares shall be entitled to receive the higher of (1) preferential dividends, payable out of funds or assets when and as such funds or assets become legally available therefor on parity with each other, at a non-cumulative rate of at least 8% per annum of the Series B-2 issue price, prior and in preference to the holders of any other class or series of Shares or (2) the pro-rata share of dividends, payable out of funds or assets when and as such funds or assets become legally available therefor on parity with each other, pari passu with the holders of any other class or series of Shares (calculated on an as-converted basis), prior and in preference to the holders of any other class or series of Shares.

Conversion feature

Each Series B-2 Preferred Share shall be convertible at the option of the holder thereof, at any time after the Series B-2 issue date into such number of fully paid Class B ordinary share as determined by dividing the Series B-2 issue price by the then-effective applicable Series B-2 conversion price. Upon the closing of a qualified IPO, each Series B-2 Preferred Share shall automatically be converted into fully-paid Class B ordinary shares based on the then-effective Series B-2 conversion price. The "Series B-2 conversion price" as of the date of issuance of the Series B-2 Preferred Shares shall initially be the Series B-2 issue price, resulting in an initial conversion ratio for the Series B-2 Preferred Shares of 1:1, and thereafter shall be subject to adjustment and readjustment from time to time as hereinafter provided, being no less than the par value. Adjustments of conversion ratios include the following: adjustment for share splits and combinations, adjustment for ordinary share dividends and distributions, adjustments for other dividends, adjustments for reorganizations, mergers, consolidations, reclassifications, exchanges, substitutions and adjustments for dilutive issuance (dilutive issuance means the event of an issuance of new securities, at any time after the issuance date of the Series B-2 Preferred Shares, for a consideration per Class B ordinary share received by the Company (net of any selling concessions, discounts or commissions) less than conversion price of the Series B-2 Preferred Shares in effect immediately prior to such issue).

Redemption feature

Upon written notice of the holders of fifty percent (50%) or more of the then issued and outstanding Series B-2 Preferred Shares, the Company shall redeem all or a portion of the Series B-2 Preferred Shares held by such holders at the Series B-2 Redemption Price, if any of the following events occurs: (a) the Company's failure to complete a Qualified IPO by the fourth (4th) anniversary of the Closing, (b) any material breach by the Warrantors (as defined in the Subscription Agreement) under the Transaction Documents, (c) the liquidation, dissolution or winding up of the Company, (d) a Deemed Liquidation Event and (e) any redemption by any holder of another series of Preferred Shares in accordance with these Articles.

The "Series B-2 Redemption Price" for each Series B-2 preferred share redeemed shall be 100% of the Series B-2 issue price plus accrued daily interest (on the basis of a 365-day year basis) at a rate of eight percent (8%) per annum and any declared but unpaid dividends on such Series B-2 preferred share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

20. Redeemable convertible preferred shares (continued)

Issuance of Series B-2 Preferred Shares and modification of the Series A Preferred Shares (continued)

Redemption feature (continued)

If the Company's assets or funds legally available for any redemption of preferred shares pursuant hereto shall be insufficient to permit the payment of the applicable Series B-2 Redemption Price or Series A Redemption Price in full in respect of each redeeming preferred share, those assets or funds, including out of the share premium account and capital, subject to the statute, which are legally available shall be, to the extent permitted by applicable law (a) first utilized to fully redeem Series B-2 preferred shares requested and entitled to be redeemed on a pro-rata basis and (b) secondly utilized to fully redeem Series A Preferred Shares requested and entitled to be redeemed on a pro-rata basis. With respect to any remaining preferred shares to be redeemed, each of the redeeming holders of the preferred shares may choose, at its sole discretion, either (i) request the Company to (and the Company upon such request shall) execute and deliver to such redeeming holder a convertible promissory note (the "Convertible Note") for the full amount of the redemption payment due but not paid to such holder; provided, that such Convertible Note shall be due and payable no later than twelve (12) months of the redemption closing date, the full amount due under such Convertible Note shall accrue interest daily (on the basis of a 365-day year) at a rate of eight percent (8%) per annum, and each holder of such Convertible Note shall have the right, at its option, to convert the unpaid principal amount of the Convertible Note and the accrued but unpaid interest thereon, into applicable preferred shares at a per share conversion price equal to the applicable preferred share issue price; or (ii) request the Company to (and the Company upon such request shall) carry forward and redeem the remaining preferred shares to be redeemed as soon as the Company has legally available funds to do so.

Dual voting structure

Concurrent with the Transaction, the Company adopted a dual voting structure on its shares. The Company's ordinary shares were divided into Class A and Class B ordinary shares, while the Company's preferred shares were divided into Series A-1, Series A-2, Series B-1 and Series B-2 preferred shares. Holders of Class A ordinary shares, Series A-1 and Series B-1 preferred shares ("Low Vote Shares") are entitled to one vote per share in all shareholders' meetings, while holders of Class B ordinary shares, Series A-2 and Series B-2 preferred shares ("High Vote Shares") are entitled to ten votes per share. Each Class B ordinary share is convertible into one Class A ordinary share at any time at the discretion of the Class B shareholders thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Each Series A-2 and Series B-2 preferred share is convertible into one Class B ordinary share of the Company, while Series A-1 and Series B-1 preferred shares are only convertible into Class A ordinary shares and shall not be convertible into Class B ordinary shares. Prior to the consummation of a qualified IPO, in the event of any direct or indirect sale or transfer of any High Vote Shares to a party other than any of holders of High Vote Shares, such High Vote Shares, which are Class B ordinary shares, Series A-2 preferred shares or Series B-2 preferred shares, shall convert into an equal number of Low Vote Shares, which are Class A ordinary shares, Series A-1 preferred shares or Series B-1 preferred shares. Upon the closing of a qualified IPO, each Series A-2 and Series B-2 preferred share would automatically be converted into a Class B ordinary share, while each Series A-1 and Series B-1 preferred share would automatically be converted into a Class A ordinary share. Except for conversion rights and voting rights, holders of Class A and Class B ordinary shares have the same rights, Series A-1 and Series A-2 preferred shares have the same rights, and Series B-1 and Series B-2 have the same rights, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

20. Redeemable convertible preferred shares (continued)

Issuance of Series B-2 Preferred Shares and modification of the Series A Preferred Shares (continued)

Liquidation preferences

In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, all assets and funds of the Company legally available for distribution to the members (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed to the members of Huya as follows:

(1) First, the holders of the Series B-2 preferred shares shall be entitled to receive for each Series B-2 preferred share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, an amount equal to the higher of (a) the sum of (i) 100% of the Series B-2 issue price, and (ii) any and all accrued or declared but unpaid dividends on such Series B-2 preferred shares, provided that if the assets and funds thus distributed among the holders of the Series B-2 preferred shares shall be insufficient to permit the payment to such holders of the full amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series B-2 preferred shares in proportion to the aggregate amount each such holder is otherwise entitled to receive pursuant to this clause (1)(a), or (b) the pro-rata share of the distributions of the Company available to all holders of ordinary shares on an as-converted basis.

(2) After the distribution or payment in full of the aggregate of the amount to the holders of the Series B-2 Preferred Shares as described above, the holders of the Series A Preferred Shares shall be entitled to receive for each Series A Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of ordinary shares by reason of their ownership of such shares, an amount equal to the higher of (a) the sum of (i) 100% of the Series A issue price, and (ii) any and all accrued or declared but unpaid dividends on such Series A Preferred Shares, provided that if the assets and funds thus distributed among the holders of the Series A Preferred Shares shall be insufficient to permit the payment to such holders of the full amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Shares in proportion to the aggregate amount each such holder is otherwise entitled to receive pursuant to this subparagraph (2)(a), or (b) the pro-rata share of the distributions of the Company available to all holders of ordinary shares on an as-converted basis.

(3) If there are any assets or funds remaining after the payment above has been distributed or paid in full to the applicable preferred shareholders, the remaining assets and funds of the Company available for distribution to the members shall be distributed ratably among all members holding ordinary shareholders according to the relative number of ordinary shares held by such member.

Right to purchase additional shares

In addition, the Company also granted an option to Tencent to enable it to purchase additional equity shares and increase its voting interest in the Company to reach 50.10% on an as-converted and fully diluted basis (defined as "call option"). The additional equity shares will be settled by JOYY's equity shares in the Company or equity shares newly issued by the Company if JOYY decides not to sell its shares. Tencent has the exclusive right to exercise the call option, at any time, commencing on the second anniversary of the closing of the Transaction and ending on the third anniversary of the closing. The exercise price of the option shall be the fair market price, which means the higher of (i) the price per ordinary share based on the Company's post-money valuation upon the closing, and (ii) either (1) a per ordinary share issue price for the most recent qualified financing of the Company, if the Company has not then completed a qualified IPO at the time of Tencent's exercise of such purchase right, or (2) the average of closing trading prices in the last 20 trading days prior to the Company's and JOYY's receipt of Tencent's written notice to exercise such purchase right, if the Company is then a public company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

20. Redeemable convertible preferred shares (continued)

Issuance of Series B-2 Preferred Shares and modification of the Series A Preferred Shares (continued)

Accounting of Series B-2 Preferred Shares

Prior to the completion of IPO, the Company has determined that the Series B-2 Preferred Shares should be classified as mezzanine equity in the consolidated balance sheets because they were redeemable at the holders' option any time after a certain date and were contingently redeemable upon the occurrence of certain liquidation events outside of the Company's control. As holders of the Series B-2 Preferred Shares who exercise the redemption rights are allowed to request the Company to issue a convertible note if the Company's assets or funds legally available for redemption are insufficient, the host contract is considered to be a debt host.

As discussed below, the conversion features and the call option shall be separately accounted for as liabilities, which are initially measured at fair value, and the initial carrying value for Series B-2 Preferred Shares recorded in mezzanine equity is allocated on a residual basis. The mezzanine equity component is accreted to the redemption value of the Series B-2 Preferred Shares.

The Company has determined that conversion feature embedded in the Series B-2 Preferred Shares is required to be bifurcated and accounted for as a derivative liability. The conversion feature is an equity instrument as it results in conversion of preferred shares into equity shares. Therefore, this feature is not clearly and closely related to the debt host. In addition, under the terms of the liquidation preference, in the occurrence of a liquidation or a deemed liquidation, the holders of the Series B-2 Preferred Shares are entitled to receive the higher of (a) the sum of (i) 100% of the Series B-2 issue price, and (ii) any and all accrued or declared but unpaid dividends on such Series B-2 Preferred Shares or (b) the pro-rata share of the distributions of the Company available to all holders of ordinary shares on an as-converted basis. Therefore, the holder will receive the greater of a fixed amount or the if-converted value. As a result, the conversion value may be realized in cash upon a liquidation or deemed liquidation, and therefore the net settlement criteria is met for the conversion feature. So the conversion feature meets the definition of a derivative and would be classified as a liability and measured at fair value at the end of each reporting year.

In addition, the Company has also determined that the call option is recorded as an investor option liability. In accordance with ASC Subtopic 815-10, the option is deemed legally detachable and separately exercisable from the preferred shares and, thus, accounted for as a freestanding instrument, furthermore, as the number of shares to be purchased by Tencent to reach 50.10% voting interest in the Company is not fixed, the call option is not considered indexed to the Company's own stock. The Company has considered that the fair value of the investor option liability is minimal as the exercise price of the call option is the fair market price. Therefore, no balance of the call option was recognized on March 8, 2018, and for the year ended December 31, 2019, no gain (loss) arising from the change in fair value of investor option liability was recognized in the Group's consolidated statements of comprehensive (loss) income.

Upon the completion of the IPO, each Series B-2 Preferred Share was automatically converted into one Class B ordinary share. As a result, 64,488,235 Class B ordinary shares were issued, and the balance of Series B-2 Preferred Shares was transferred to Class B ordinary shares and additional paid-in capital on that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

20. Redeemable convertible preferred shares (continued)

Issuance of Series B-2 Preferred Shares and modification of the Series A Preferred Shares (continued)

Accounting of modification of the Series A Preferred Shares

As discussed above, the Company adopted a dual voting structure on its shares concurrent with the Transaction and certain Series A Preferred Shares were designated as Low Vote Shares. Considering the facts that the dual voting structure does not provide any means for the High Vote Shares to monetize or obtain economic benefits from such rights over the other shareholders and the creation of the dual voting structure does not change the position that JOYY controls and Tencent has significant influence over the Company, the Company believed that the wealth transfer among different class of preferred shareholders and ordinary shareholders as a result of the creation of the dual voting structure is minimal and does not need to be accounted for.

Prior to the issuance of Series B-2 Preferred Shares, under the terms of the liquidation preferences, holders of the Series A Preferred Shares would be entitled to receive an amount equal to the sum of (i) 100% of the Series A issue price, and (ii) any and all accrued or declared but unpaid dividends on such Series A Preferred Shares upon a liquidation or deemed liquidation. Concurrent with the issuance of the Series B-2 Preferred Shares, the liquidation payment of the Series A Preferred Shares were modified to align with that of Series B-2 Preferred Shares, which is that, the holders of Series A Preferred Shares would receive an amount at the higher of (a) the sum of (i) 100% of the Series A issue price, and (ii) any and all accrued or declared but unpaid dividends on such Series A Preferred Shares or (b) the pro-rata share of the distributions of the Company available to all holders of ordinary shares on an as-converted basis in a liquidation or deemed liquidation.

Prior to the modification, there was no net settlement mechanism of the conversion feature of Series A Preferred Shares and therefore the conversion feature did not meet the definition of a derivative liability and was not bifurcated and accounted for separately. After the issuance of Series B-2 Preferred Shares, the modification to the payment under liquidation preference of Series A Preferred Shares provided a net settlement mechanism to the conversion feature embedded. As detailed in the analysis of the Series B-2 Preferred Shares above, the Company has considered that the conversion feature of the modified Series A Preferred Shares meets the definition of a derivative liability and should be bifurcated and accounted separately from the host contract post modification. As the host contract of the Series A Preferred Shares has been significantly changed by providing net settlement mechanism for the conversion rights, the Company has concluded that the modification to Series A Preferred Shares should be accounted for as an extinguishment.

Upon the modification of Series A Preferred Shares and prior to the IPO, the difference between the fair value of the modified Series A Preferred Shares and the carrying value of Series A Preferred Shares on the modification date should be recognized as a deemed dividend against retained earnings, or in the absence of retained earnings, by charges against additional paid-in capital. Once additional paid-in capital has been exhausted, additional charges are recorded by increasing the accumulated deficit of the Company. On the modification date, in the absence of retained earnings, all the additional paid-in capital has been exhausted and additional charges were recorded in accumulated deficit due to the deemed dividend to Series A Preferred Shareholders. Post the modification date, the accretion of the Pre-IPO Preferred Shares consumed the additional paid-in capital until exhaustion. The allocation of the consumption of additional paid-in capital between Series A Preferred Shares and Series B-2 Preferred Shares was proportionate to the respective total amount of accretion for the period. As discussed above, the conversion feature shall be separately accounted for as a derivative liability at fair value, and the carrying value for the modified Series A Preferred Shares recorded in mezzanine equity is allocated on a residual basis. The conversion feature is remeasured at fair value at each subsequent reporting period with changes in fair value recognized in the Group’s consolidated statements of comprehensive (loss) income. The mezzanine equity component is accreted to the redemption value of the Series A Preferred Shares.

Upon the completion of the IPO, each Series A-1 Preferred Share and Series A-2 Preferred Share were automatically converted into one Class A ordinary share and Class B ordinary share, respectively. As a result, 17,647,058 Class A ordinary shares and 4,411,765 Class B ordinary shares were issued, respectively, and the balance of Series A-1 Preferred Shares and Series A-2 Preferred Shares was transferred to Class A ordinary shares and Class B ordinary shares and additional paid-in capital on that date, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

20. Redeemable convertible preferred shares (continued)

Issuance of Series B-2 Preferred Shares and modification of the Series A Preferred Shares (continued)

Fair values of derivative liabilities

Upon the completion of the IPO, the derivative liabilities were derecognized and the balance was transferred to additional paid-in capital accordingly. For the year ended December 31, 2019, there is no changes in the fair values of these conversion features which required to be bifurcated and accounted for as derivative liabilities.

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20. Redeemable convertible preferred shares (continued)

Issuance of Series B-2 Preferred Shares and modification of the Series A Preferred Shares (continued)

Accretion of preferred shares to redemption value

Series A Preferred Shares

Prior to the extinguishment of the Series A Preferred Shares as of March 8, 2018, the Company recognized accretion to the redemption value of the Series A Preferred Shares over the period starting from issuance date to the earliest redemption date. From January 1, 2018 to the extinguishment date, the Company recognized accretion of the Series A Preferred Shares amounted to US$1,101 (equivalent to RMB7,078).

The Company's Series A Preferred Shares activities from January 1, 2018 to the extinguishment date are summarized below:

Prior to the extinguishment	Number of shares	Amount RMB
Mezzanine equity balance as of January 1, 2017	—	—
Issuance as of July 10, 2017	22,058,823	509,730
Accretion to Series A Preferred Shares redemption value prior to the extinguishment	—	19,842
Foreign exchange	—	(19,904)
Mezzanine equity balance as of December 31, 2017	22,058,823	509,668
Mezzanine equity balance as of January 1, 2018	22,058,823	509,668
Accretion to Series A Preferred Shares redemption value prior to the extinguishment	—	7,078
Foreign exchange	—	(17,405)
Mezzanine equity balance as of March 8, 2018	22,058,823	499,341

Upon the extinguishment of the Series A Preferred Shares as of March 8, 2018, mezzanine equity balance of the modified Series A Preferred Shares was adjusted to US$67,063 (equivalent to RMB424,099) after considering the impact from increase of fair value of the whole modified Series A Preferred Shares instrument and bifurcation of conversion features upon the extinguishment. Accordingly, the Company recognized accretion from the modified amount of mezzanine equity to the redemption value of the Series A Preferred Shares over the period starting from the extinguishment date to the earliest redemption date. From the extinguishment date to May 10, 2018, the Company recognized accretion of the Series A Preferred Shares amounted to US$1,651 (equivalent to RMB10,439).

The Company's Series A Preferred Shares activities from the extinguishment date to December 31, 2018 are summarized below:

Post extinguishment	Number of shares	Amount RMB
Mezzanine equity balance as of the extinguishment date	22,058,823	499,341
Revaluation of fair value of the whole instrument upon the extinguishment as of March 8, 2018, recognized as deemed dividend to Series A Preferred Shareholders	—	496,995
Bifurcation of conversion feature as of March 8, 2018	—	(572,237)
Accretion to Series A Preferred Shares redemption value from March 9, 2018 to May 10, 2018	—	10,439
Foreign exchange	—	1,961
Conversion of Preferred Shares to ordinary shares upon the completion of the IPO	(22,058,823)	(436,499)
Mezzanine equity balance as of December 31, 2018	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

20. Redeemable convertible preferred shares (continued)

Issuance of Series B-2 Preferred Shares and modification of the Series A Preferred Shares (continued)

Accretion of preferred shares to redemption value (continued)

Series B-2 Preferred Shares

The Company recognized accretion from the initial carrying value of mezzanine equity to the redemption value of the Series B-2 Preferred Shares over the period starting from issuance date to the earliest redemption date. From the issuance date to May 10, 2018, the Company recognized accretion of the Series B-2 Preferred Shares amounted to US$8,558 (equivalent to RMB54,111). For the year ended December 31, 2019, there is no issuance and accretion related to redemption of the Series B-2 Preferred Shares.

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(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

21. Share-based compensation

Compensation expense recognized for share-based awards granted by JOYY and Huya was as follows:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Share-based compensation expenses			
- Related to JOYY's Share-based Awards	10,465	5,833	1,996
- Related to Huya Share-based Awards	19,473	220,862	279,748
- Related to CEO's Awards	10,170	—	—
Total	40,108	226,695	281,744

There was no capitalized share-based compensation expense for the years presented.

(a) JOYY's Share-based Awards

Certain of the Group's employees were granted awards under the 2011 Share Incentive Scheme of JOYY. The share-based compensation expense arising from such grants was allocated to the Group and recognized as share-based compensation expense in the Group's consolidated statements of comprehensive (loss) income.

For the years ended December 31, 2017, 2018 and 2019, share-based compensation expense of RMB10,465, RMB5,833 and RMB1,996, respectively, was recognized in the Group's consolidated statements of comprehensive (loss) income.

As of December 31, 2019, there was no unrecognized compensation expense since all the restricted share units have been vested.

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(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

21. Share-based compensation (continued)

(b) Huya Share-based Awards

Huya 2017 Share Incentive Plan

On July 10, 2017, the Board of Directors of the Company approved the establishment of 2017 Share Incentive Plan, the purpose of which is to provide an incentive for employees contributing to the Group. The 2017 Share Incentive Plan shall be valid and effective for 10 years from the establishment date. The maximum number of shares that may be issued pursuant to all awards under 2017 Share Incentive Plan shall be 17,647,058 shares. On March 31, 2018, the Board of Directors approved to increase the maximum number of shares, that may be issued, from 17,647,058 shares to 28,394,117 shares, including incentive share options and restricted share units.

(i) Options

Grant of options

During the year ended December 31, 2017, the Company granted 11,737,705 share options to employees.

During the year ended December 31, 2018, the Company granted 5,918,353 and 220,000 share options to employees and non-employees, respectively.

During the year ended December 31, 2019, no share option was granted to employees or non-employees.

Vesting of options

There are mainly three types of vesting schedule, which are: i) 50% of the options will be vested after 24 months of the grant date and the remaining 50% will be vested in two equal installments over the following 24 months, ii) options will be vested in four equal installments over the following 48 months, and iii) options will be vested in four equal installments over the following 24 months.

These options shall (i) be exercisable during its term cumulatively according to the vesting schedule set out in the grant notice and with the applicable provisions of Huya 2017 Share Incentive Plan, provided that the performance conditions otherwise agreed by the parties (if any) to which the option is subject have been fulfilled upon each corresponding vesting date; (ii) be deemed vested and exercisable immediately in the event of a change of control, regardless of the vesting schedule; (iii) be exercisable upon any arrangement as otherwise agreed by the parties based on their discussion in good faith.

Movements in the number of share options granted and their related weighted average exercise prices are as follows:

	Number of options	Weighted average exercise price (US$)	Weighted average remaining contractual life (years)	Aggregate intrinsic value (US$)
As of December 31, 2016	—	—	—	—
Granted	11,737,705	2.5500		
Forfeited	(18,000)	2.5500		
As of December 31, 2017	11,719,705	2.5500	9.75	2,227
Granted	6,138,353	2.4672		
Forfeited	(75,000)	2.5500		
Cancelled	(262,503)	2.5500		
As of December 31, 2018	17,520,555	2.5210	8.82	227,049
Forfeited	(257,750)	2,5500		
Exercised	(2,011,144)	2.3290		
As of December 31, 2019	15,251,661	2.5458	7.84	234,939
Expected to vest at December 31, 2019	9,790,460	2.5500	7.88	150,773
Exercisable as of December 31, 2019	5,410,546	2.5383	7.77	83,386

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(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

21. Share-based compensation (continued)

(b) Huya Share-based Awards (continued)

Huya 2017 Share Incentive Plan (continued)

(i) Options (continued)

Vesting of options (continued)

Prior to the completion of the IPO, the Company has used binomial option-pricing model to determine the fair value of the share options as of the grant dates. Key assumptions are set as below:

	2017	2018
Weighted average fair value per option granted	US$ 1.3798	US$5.2130
Weighted average exercise price	US$ 2.55	US$ 2.47
Risk-free interest rate [1]	2.25%	2.83%
Expected term (in year) [2]	10	10
Expected volatility [3]	55%	55%
Dividend yield [4]	—	—

(1) The risk-free interest rate of periods within the contractual life of the share option is based on the China Government Bond yield as at the valuation dates.
(2) The expected term is the contract life of the option.
(3) Expected volatility is estimated based on the average of historical volatilities of the comparable companies in the same industry as at the valuation dates.
(4) The Company has no history or expectation of paying dividend on its ordinary shares. The expected dividend yield was estimated based on the Company's expected dividend policy over the expected term of the option.

For the years ended December 31, 2017, 2018 and 2019, the Group recorded share-based compensation in general and administrative expenses of nil, RMB20,980 and RMB6,746 for the share options granted to non-employees.

For the years ended December 31, 2017, 2018 and 2019, the Group recorded share-based compensation of RMB19,473, RMB151,242 and RMB102,970, using the graded-vesting attribution method, including accelerated compensation cost amounted to RMB1,869 due to that 262,503 share options were canceled during the year ended December 31, 2018 without concurrent grant of replacement awards, which is treated as a settlement for no consideration at the time of cancelation under ASC 718.

As of December 31, 2019, there was RMB74,614 unrecognized share-based compensation expense of options relating to Huya 2017 Share Incentive Plan. The expense is expected to be recognized over a weighted-average remaining vesting period of 0.91 years using the graded vesting attribution method.

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(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

21. Share-based compensation (continued)

(b) Huya Share-based Awards (continued)

Huya 2017 Share Incentive Plan (continued)

(ii) Restricted share units

Grant of restricted share units

During the years ended December 31, 2017, no restricted share unit was granted to employees or non-employees.

During the year ended December 31, 2018, the Company granted 4,183,685 and 10,000 restricted share units to employees and non-employees, respectively.

During the year ended December 31, 2019, the Company granted 2,908,370 and nil restricted share units to employees and non-employees, respectively.

Vesting of restricted share units

There are mainly three types of vesting schedule for employees, which are: i) 50% of the restricted share units will be vested after 24 months of the grant date and the remaining 50% will be vested in two equal installments over the following 24 months, ii) restricted share units will be vested in four equal installments over the following 48 months, and iii) 25% of the restricted share units will be vested after 6 months of the grant date and the remaining 75% will be vested in three equal installments over the following 36 months.

The following table summarizes the activity of restricted share units for the years ended December 31, 2017, 2018 and 2019:

	Number of restricted share units	Weighted average grant-date fair value (US$)
Outstanding, January 1, 2017 and December 31, 2017	—	—
Granted	4,193,685	9.0242
Forfeited	(76,500)	7.1600
Vested	(10,000)	19.5900
Outstanding, December 31, 2018	4,107,185	9.0331
Granted	2,908,370	22.7642
Forfeited	(270,707)	14.8129
Vested	(465,000)	7.1600
Outstanding, December 31, 2019	6,279,848	15.4350
Expected to vest at December 31, 2019	6,040,024	15.0623

For the years ended December 31, 2017, 2018 and 2019, the Company recorded share-based compensation of nil, RMB69,620 and RMB176,778 using the graded vesting attribution method.

For the years ended December 31, 2017, 2018 and 2019, the Company recorded share-based compensation in general and administrative expenses of nil, RMB1,076 and nil for the restricted share units granted to non-employees.

As of December 31, 2019, total unrecognized compensation expense relating to the restricted share units was RMB412,186. The expense is expected to be recognized over a weighted average period of 1.16 year using the graded-vesting attribution method.

(c) CEO's Awards

As detailed in Note 19, in October 2017, JOYY transferred, at nominal consideration, 559,039 ordinary shares of the Company to the CEO of the Company, for his service provided to the Company. The share awards were immediately vested and the Company recorded a share-based compensation charge of RMB10,170 for the year ended December 31, 2017.

The fair value of the CEO's Awards was determined at the grant date by the Company.

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(All amounts in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

22. Net (loss) income per share

Basic and diluted net (loss) income per share for the year ended December 31, 2017, 2018 and 2019 are calculated as follow:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Numerator:			
Net (loss) income	(80,968)	(1,937,689)	468,173
Accretion to Preferred Shares redemption value	(19,842)	(71,628)	—
Deemed dividend to Series A Preferred Shareholders	—	(496,995)	—
Numerator for basic and diluted net (loss) income per share	(100,810)	(2,506,312)	468,173
Denominator:			
Denominator for basic calculation—weighted average number of Class A and Class B ordinary shares outstanding	100,000,000	166,828,435	214,811,862
—Diluted effect of share option	—	—	14,060,031
—Diluted effect of restricted share units	—	—	3,153,068
Denominator for diluted calculation	100,000,000	166,828,435	232,024,961
Net (loss) income per ordinary share			
—Basic	(1.01)	(15.02)	2.18
—Diluted	(1.01)	(15.02)	2.02
Net (loss) income per ADS*			
—Basic	(1.01)	(15.02)	2.18
—Diluted	(1.01)	(15.02)	2.02

* Each ADS represents one Class A ordinary share.

The weighted average number of ordinary shares outstanding which could potentially dilute basic earnings per share in the future related to the share options and restricted share units under Huya 2017 Share Incentive Plan were 12,514,387 and 1,811,028 for the year ended December 31, 2018, respectively. The share options and restricted share units were excluded in the computation of diluted loss per share for the year ended December 31, 2018 because the inclusion of such share awards would be anti-dilutive.

The weighted average number of ordinary shares outstanding which could potentially dilute basic earnings per share in the future related to the share options under Huya 2017 Share Incentive Plan were 4,661,001 for the year ended December 31, 2017. The share options were excluded in the computation of diluted loss per share for the year ended December 31, 2017 because the inclusion of such share awards would be anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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23. Related party transactions

For the years ended December 31, 2017, 2018 and 2019, significant related party transactions were as follows:

Transactions with JOYY

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Cash collected by JOYY as a payment platform for Huya	2,352,528	4,081,696	1,362,489
Purchase of services by JOYY on behalf of Huya	155,249	37,408	22,622
Operation support services provided by JOYY (i)	151,216	44,523	17,455
Repayment from JOYY in relation to the payment on behalf of Huya's employees	—	1,229	15,306
Deemed distribution to JOYY (ii)	—	—	10,119
Share-based compensation expenses related to JOYY's Share-based Awards (Note 21(a))	10,465	5,833	1,996
Purchase of property and equipment and intangible assets from JOYY	733	6,422	294
Cash received in connection with purchasing short-term deposits together with JOYY	—	7,096	—
Cash paid to purchase short-term deposits together with JOYY	7,096	—	—
Advertising revenue from JOYY	468	1,955	—
Net increase in Parent Company investment through contributed service	164,913	—	—
Capital contribution from VIE of JOYY	100,000	—	—
Deemed contribution from JOYY (ii)	20,000	—	—
Share-based compensation expenses related to CEO's Awards (Note 21(c))	10,170	—	—
Others	849	194	228

Transactions with Tencent

On February 5, 2018, Tencent and the Company, through their respective PRC affiliated entities, entered into a business cooperation agreement, which became effective on March 8, 2018. Pursuant to the agreement, both parties agreed to establish strategic cooperation relationship in various areas, including game publishing and operation, live game streaming content provision and broadcaster management. This agreement has a term of three years, which will be renewed subject to both parties' negotiation.

Upon the completion of the issuance of Series B-2 Preferred Shares on March 8, 2018 (Note 20), Tencent became a related party of the Company as its major shareholder. The transactions with Tencent prior to March 8, 2018 were not disclosed as related party transactions.

	For the year ended December 31,	
	2018	2019
	RMB	RMB
Operation support services provided by Tencent (iii)	106,547	219,403
Purchase of copyrights for live streaming from Tencent	88,075	123,204
Payment on behalf of Tencent	—	16,127
Market promotion expenses charged by Tencent	2,174	12,777
Advertising revenue from Tencent	14,345	8,028
Cash collected by Tencent as a game operator for Huya	—	1,807
Online games revenue shared to Tencent as a game operator	—	1,028

(i) Purchases of services from JOYY mainly consist of office rental, payment handling services and bandwidth services which are charged at market price.

(ii) The Business was operated by JOYY until the completion of being carved out from JOYY on January 1, 2017. For the litigations of the Business related to events that took place before the completion of being carved out, any settlements that were reached ever since the completion would be borne by JOYY, representing a capital contribution to Huya for any loss or distribution from Huya for any gain, pursuant to the arrangements between JOYY and Huya.

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23. Related party transactions (continued)

For the year ended December 31, 2017, local court passed a judgment ordering JOYY to compensate a game publisher for its loss as a result of the alleged copyright infringement amounting to RMB20 million. Accordingly, Huya recorded an expense relating to such loss contingency and recognized a deemed contribution from JOYY. Final judgement that concurred with the first judgement in 2017 has been passed subsequently in December 2019.

For the year ended December 31, 2019, JOYY received compensation amounting to RMB10.1 million from settlement of contract breaching of broadcasters in relation to the Business. Accordingly, Huya recorded income relating to such settlements and recognized a deemed distribution to JOYY.

(iii) Operation support services from Tencent mainly consist of bandwidth and payment handling services which are charged at market price.

On July 10, 2017, pursuant to Series A Preferred Shares arrangements (Note 20) entered amongst the Company and the investors of the Series A Preferred Shares, the Company issued, and Jungle TT Limited, which was wholly owned by CEO of Huya, and NEW WALES HOLDINGS LIMITED and LEGEND RANK VENTURES LIMITED, both of which were wholly owned by CEO and the Chairman of JOYY subscribed for, 4,411,765, 4,411,765 and 1,470,588 Series A Preferred Shares, respectively, at a price of US$3.4 per share with a total consideration of US$35,000.

Starting from January 1, 2017, the Company obtained an exclusive and royalty-free license from VIE of JOYY to use 39 patents, 8 of which are under application through the respective terms of such patents as of December 31, 2019.

As of December 31, 2018 and 2019, the amounts due from/to related parties are as follows:

	December 31,	
	2018	2019
	RMB	RMB
Amounts due from related parties		
Tencent	6,142	41,129
JOYY	231,226	10,807
Other	1,471	—
Total	238,839	51,936
Amounts due to related parties		
Tencent	33,773	78,832
Other	900	200
Total	34,673	79,032

The other receivables/payables from/to related parties are unsecured, interest-free and payable on demand.

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24. Fair value measurements

Fair value reflects the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the assets or liabilities.

The Group applies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. This guidance specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level 1—Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2—Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

Level 3—Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value guidance describes three main approaches to measure the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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24. Fair value measurements (continued)

The following table sets forth the financial instruments measured or disclosed at fair value on a recurring basis by level within the fair value hierarchy as of December 31, 2018 and 2019:

	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
	RMB	RMB	RMB	RMB
Assets				
Short-term investments (i)	—	300,162	—	300,162
Liabilities				
Derivative liabilities(ii)	—	—	—	—

	As of December 31, 2019			
	Level 1	Level 2	Level 3	Total
	RMB	RMB	RMB	RMB
Assets				
Short-term investments (i)	108,476	2,111,055	—	2,219,531
Liabilities				
Derivative liabilities(ii)	—	—	—	—

(i) Short-term investments represented the investments issued by commercial banks and financial institution with a variable interest rate indexed to the performance of underlying assets within one year. For the instruments whose fair value is provided by banks at the end of each period, the Company classifies the valuation techniques that use these inputs as Level 1 of fair value measurements. For the instruments whose fair value is estimated based on quoted prices of similar products provided by banks at the end of each period, the Company classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

(ii) The Company has determined that conversion feature embedded in the Series B-2 Preferred Shares is required to be bifurcated and accounted for as a derivative liability which was measured at fair value (Note 20). Upon the completion of the IPO, the derivative liabilities were derecognized and the balance was transferred to additional paid-in capital accordingly.

The following table presents the changes in level 3 liabilities for the year ended December 31, 2018 and December 31, 2019,

	Conversion feature embedded in Series A Preferred Shares	Conversion feature embedded in Series B-2 Preferred Shares	Total
	RMB	RMB	RMB
Balance as of January 1, 2018	—	—	—
Initial recognition upon the extinguishment of the Series A Preferred Shares and the issuance of Series B-2 Preferred Shares as of March 8, 2018	572,237	320,097	892,334
Fair value loss on derivative liabilities	628,298	1,656,925	2,285,223
Foreign exchange	4,573	6,697	11,270
Derecognition of derivative liabilities upon the completion of the IPO	(1,205,108)	(1,983,719)	(3,188,827)
Balance as of December 31, 2018	—	—	—

In determining the fair value of these preferred shares, the Company has adopted the equity allocation model. For purposes of determining the conversion features of the Pre-IPO Preferred Shares as of March 8, 2018 and May 10, 2018, the Company has re-performed the equity allocation model for the Pre-IPO Preferred Shares in scenarios assuming the conversion feature is removed, the difference between those with embedded conversion features scenario and those without embedded conversion features scenario is considered to be value of the conversion features of the Pre-IPO Preferred Shares. The Company assumed the Pre-IPO Preferred Shares would not be converted to ordinary shares in neither the IPO scenario, the liquidation scenario nor the redemption scenario. Such approach involves certain significant estimates which are as follows:

Valuation Date	March 8, 2018	May 10, 2018
Volatility	50%	50%
Risk-free rate (3 months)	1.66%	1.58%
Risk-free rate (4 years)	2.52%	2.46%
Dividend yield	0%	0%

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25. Leases

The following table summarizes the lease expense for the year ended December 31, 2019:

	For the year ended December 31, 2019 RMB
Operating lease expense	30,540
Short-term lease expense	19,149
Total lease expense	49,689
Weighted-average remaining lease term (in years) – operating leases	3.7
Weighted-average discount rate – operating leases	4.8%

Operating lease expense was RMB12,780 and RMB20,799 for the years ended December 31, 2017 and 2018, respectively, under Topic 840.

As of December 31, 2019, future minimum lease payments under non-cancellable operating lease agreements for which the Group has recognized operating lease right-of-use assets and liabilities are as follows:

For the year ended December 31,	Future minimum payments RMB
2020	32,804
2021	29,425
2022	26,323
2023	22,783
2024 and thereafter	—
Total undiscounted cash flows	111,335
Less: imputed interest	(9,347)
Total	101,988

As of December 31, 2019, the Group has operating leases that have not yet commenced with future minimum lease payments amounting to RMB855. These operating leases will commence in the first quarter of 2020 with lease terms of 2 years.

Supplemental cash flow information related to leases for the year ended December 31, 2019 are as follows:

	For the year ended December 31, 2019 RMB
Cash paid for operating leases	28,847
Lease liabilities arising from obtaining right-of-use assets	33,399

26. Commitments and contingencies

(a) Operating commitments

As of December 31, 2018, future minimum payments under non-cancelable agreements consist of the following,

	Operating commitments RMB
2019	44,808
2020	28,629
2021	26,573
2022 and thereafter	47,726
	147,736

As of December 31, 2019, future minimum payments under non-cancelable agreements consist of the following,

	Operating commitments RMB
2020	10,787
2021	5,598
2022	4,086
2023 and thereafter	3,204
	23,675

The commitments presented above mainly consist of property management fees, short-term lease commitments and leases that have not yet commenced but that create significant rights and obligations for the Company, which are not included in operating lease right-of–use assets and lease liabilities.

(b) Capital and other commitments

As of December 31, 2019, the Group had no outstanding capital and other commitments.

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26. Commitments and contingencies (continued)

(c) Legal proceedings

In 2018, the Group involved in a lawsuit alleging the Group infringed the counter party's game intellectual property. Total claim amount is RMB20 million.

In 2019, the Group involved in a few cases related to unfair competition in broadcasters recruitment. These cases are pending in various courts. Total claim amount is RMB120 million.

In April 2020, local court passed a first-instance judgment on one unfair competition case of the Company. The court held the Company's action did not constitute unfair competition and rejected all the plaintiff's claims. Such judgment is still subject to an appeal, if any.

As of the date of issuance of the financial statement, those remaining lawsuits are still pending and the Group is not able to make a reliable estimate of the potential loss, if any.

27. Subsequent events

a) Starting in January 2020, there was an outbreak of coronavirus in China and it rapidly spread globally. In March 2020, the World Health Organization declared COVID-19 as a global pandemic. Based on the Company's preliminary assessment, there was no significant impact on the results of operation and financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of the issuance of the consolidated financial statements. However, due to the evolving situation and global spread, there remains a high degree of uncertainty in the long-term impact to the group. The Group will continue to evaluate the impact on the results of operation and financial position of the Group and react actively as the situation evolves.

b) On April 3, 2020, JOYY has transferred 16,523,819 Class B ordinary shares of Huya to Tencent for an aggregate purchase price of approximately US$262,563 in cash, pursuant to Tencent's exercise of its option to purchase additional shares of Huya from JOYY. Upon the closing of the share transfer, Tencent's voting power in Huya has been increased to 50.1% on a fully-diluted basis, or 50.9% calculated based on the total issued and outstanding shares of Huya, and will then consolidate financial statements of Huya, while JOYY holds 68,374,463 Class B ordinary shares of Huya, representing approximately 43.0% of the total voting power calculated based on the total issued and outstanding shares of Huya.

Pursuant to the 2017 Share Incentive Plan and option agreements with grantees, all of the share options shall be deemed vested and exercisable immediately in the event of a change of control, regardless of the vesting schedule. Accordingly, upon the aforementioned share transfer, options to purchase 8,343,527 Class A ordinary shares have been deemed vested and exercisable immediately, and share-based compensation expense of RMB57.7 million has been immediately recognized.

28. Restricted net assets

Relevant PRC laws and regulations permit payments of dividends by the entities incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Group's entities in the PRC are required to annually appropriate 10% of their net after-tax income to the statutory general reserve fund prior to payment of any dividends, unless such reserve funds have reached 50% of their respective registered capital. As a result of these and other restrictions under PRC laws and regulations, the Group's entities incorporated in the PRC are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances, which restricted portion as calculated under U.S. GAAP amounted to RMB307,139 and RMB380,164 as of December 31, 2018 and 2019. There are no differences between U.S. GAAP and PRC accounting standards in connection with the reported net assets of the legally owned subsidiaries in the PRC and the VIE. Even though the Company currently does not require any such dividends, loans or advances from the PRC entities for working capital and other funding purposes, the Company may in the future require additional cash resources from them due to changes in business conditions, to fund future acquisitions and development, or merely to declare and pay dividends or distributions to its shareholders. Except for the above, there is no other restriction on use of proceeds generated by the Group's subsidiaries and VIE to satisfy any obligations of the Company.

For the year ended December 31, 2019, the Company performed a test on the restricted net assets of subsidiaries and VIE in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), "General Notes to Financial Statements" and concluded that the restricted net assets do not exceed 25% of the consolidated net assets of the Company as of December 31, 2019 and the condensed financial information of the Company are not required to be presented.

Description of rights of each class of securities
registered under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act")

American Depositary Shares ("ADSs") each representing seven Class A ordinary shares of HUYA Inc., (the "we," "our," "our company," or "us") are listed and traded on the New York Stock Exchange and, in connection with this listing (but not for trading), the Class A ordinary shares are registered under Section 12(b) of the Exchange Act. This exhibit contains a description of the rights of (i) the holders of Class A ordinary shares and (ii) the holders of ADSs. Class A ordinary shares underlying the ADSs are held by Deutsche Bank Trust Company Americas,, as depositary, and holders of ADSs will not be treated as holders of the Class A ordinary shares.

Description of Class A Ordinary Shares

The following is a summary of material provisions of our currently effective third amended and restated memorandum and articles of association (the "Memorandum and Articles of Association"), as well as the Companies Law (as amended) of the Cayman Islands (the "Companies Law") insofar as they relate to the material terms of our ordinary shares. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire Memorandum and Articles of Association, which has been filed with the SEC as an exhibit to our Registration Statement on Form F-1 (No. 333-224202).

Type and Class of Securities (Item 9.A.5 of Form 20-F)

Each Class A ordinary share has US$0.0001 par value. The number of Class A ordinary shares that have been issued as of the last day of the financial year ended December 31, 2019 is provided on the cover of the annual report on Form 20-F filed on April 27, 2020 (the "2019 Form 20-F"). Our Class A ordinary shares may be held in either certificated or uncertificated form.

Preemptive Rights (Item 9.A.3 of Form 20-F)

Our shareholders do not have preemptive rights.

Limitations or Qualifications (Item 9.A.6 of Form 20-F)

We have a dual-class voting structure such that our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share shall entitle the holder thereof to one vote on all matters subject to the vote at general meetings of our company, and each Class B ordinary share shall entitle the holder thereof to ten votes on all matters subject to the vote at general meetings of our company. Due to the super voting power of holders of Class B ordinary shares, the voting power of holders of the Class A ordinary shares may be materially limited.

Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of Class A Ordinary Shares (Item 10.B.3 of Form 20-F)

Ordinary Shares

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares will have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form and are issued when registered in our register of members. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Conversion

Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of Class B ordinary shares by a holder thereof to any person other than holders of Class B ordinary shares or their affiliates, or upon a change of ultimate beneficial ownership of any Class B ordinary shares to any person or entity who is not an affiliate of the holder of such Class B ordinary shares, such Class B ordinary shares shall be automatically and immediately converted into the same number of Class A ordinary shares.

Dividends

The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to our Memorandum and Articles of Association. In addition, our shareholders may by an ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, our company may declare and pay a dividend only out of funds legally available therefor, namely out of either our profit or our share premium account, provided that in no circumstances may we pay a dividend if, immediately after this payment, this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

Voting Rights

In respect of all matters subject to a shareholders' vote, each holder of Class A ordinary shares is entitled to one vote per share and each holder of Class B ordinary shares is entitled to ten votes per share on all matters subject to vote at our general meetings. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any shareholder present in person or by proxy.

A quorum required for a meeting of shareholders consists of one or more shareholders present or representing by proxy and holding shares which represent, in aggregate, not less than one-third of all votes attaching to the issued and outstanding voting shares entitled to vote at general meetings. Shareholders may be present in person or by proxy or, if the shareholder is a legal entity, by its duly authorized representative. Shareholders' meetings may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding, at the date of deposit of the requisition, shares which represent, in aggregate, no less than one-third of the votes attaching to all our issued and outstanding shares, in which case the directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our Memorandum and Articles of Association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders. Advance notice of at least ten (10) calendar days is required for the convening of our annual general shareholders' meeting and any other general shareholders' meeting.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Law and our Memorandum and Articles of Association. A special resolution will be required for important matters such as a change of our name or making changes to our Memorandum and Articles of Association. Holders of the ordinary shares may, among other things, consolidate or subdivide their shares by ordinary resolution.

Transfer of Ordinary Shares

Subject to the restrictions in our Memorandum and Articles of Association as set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as the NYSE may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three calendar months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the NYSE, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our board of directors may determine.

Liquidation

On a return of capital on winding up of our company, if the assets available for distribution among our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus will be distributed among our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to the par value of the shares held by them. We are an exempted company with limited liability registered under the Companies Law, and under the Companies Law, the liability of our members is limited to the amount, if any, unpaid on the shares respectively held by them. Our Memorandum and Articles of Association contains a declaration that the liability of our members is so limited.

Calls on Ordinary Shares and Forfeiture of Ordinary shares

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, Repurchase and Surrender of Ordinary Shares

We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by a special resolution of our shareholders. Our company may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by our board of directors or by ordinary resolution of our shareholders, or are otherwise authorized by our memorandum and articles of association. Under the Companies Law, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if the company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Requirements to Change the Rights of Holders of Class A Ordinary Shares (Item 10.B.4 of Form 20-F)

Variations of Rights of Shares

If at any time, our share capital is divided into different classes of shares, all or any of the rights attached to any such class may (subject to any rights or restrictions for the time being attached to any class of share) only be materially adversely varied with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights will not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be materially adversely varied by the creation or issue of further shares ranking pari passu with or subsequent to such existing class of shares or the redemption or purchase of any shares of any class by us. The rights of the holders of shares shall not be deemed to be materially adversely varied by the creation or issue of shares with preferred or other rights including, without limitation, the creation of shares with enhanced or weighted voting rights.

Limitations on the Rights to Own Class A Ordinary Shares (Item 10.B.6 of Form 20-F)

There are no limitations under the laws of the Cayman Islands or under the Memorandum and Articles of Association that limit the right of non-resident or foreign owners to hold or vote Class A ordinary shares, other than anti-takeover provisions contained in the Memorandum and Articles of Association to limit the ability of others to acquire control of our company or cause our company to engage in change-of-control transactions.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

Anti-Takeover Provisions. Some provisions of our Memorandum and Articles of Association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our Memorandum and Articles of Association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

Ownership Threshold (Item 10.B.8 of Form 20-F)

There are no provisions under the laws of the Cayman Islands applicable to the Company, or under the Memorandum and Articles of Association that require the Company to disclose shareholder ownership above any particular ownership threshold.

Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

The Companies Law is derived, to a large extent, from the older Companies Acts of England but does not follow recent United Kingdom statutory enactments, and accordingly there are significant differences between the Companies Law and the current Companies Act of England. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the comparable provisions of the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements. The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a "consolidation" means the combination of two or more constituent companies into a combined company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a statement of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a "parent" of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders or creditors (representing 75% by value) with whom the arrangement is to be made and who must, in addition, represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder or creditor has the right to express to the court the view that the transaction ought not to be approved, the court would nevertheless be likely to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

The Companies Law also contains a statutory power of compulsory acquisition which may facilitate the "squeeze out" of dissentient minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction by way of scheme of arrangement is thus approved, or if a tender offer is made and accepted, a dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits. In principle, we will normally be the proper plaintiff and as a general rule, a derivative action may ordinarily not be brought by a minority shareholder. However, based on English authority, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands courts can be expected (and have had occasion) to follow and apply the common law principles (namely the rule in Foss v. Harbottle and the exceptions thereto) which permit a minority shareholder to commence a class action against, or derivative actions in the name of, our company to challenge:

- an act which is ultra vires or illegal and is therefore incapable of ratification by the shareholders,
- an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and
- an act which requires a resolution with a qualified (or special) majority (i.e. more than a simple majority) which has not been obtained.

Indemnification of Directors and Executive Officers and Limitation of Liability. Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our Memorandum and Articles of Association require us to indemnify our officers and directors against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained in their capacities as such unless such actions, proceedings, costs, charges, expenses, losses, damages or liabilities arise from dishonesty, willful default or fraud of such director or officer. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation.

In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in our Memorandum and Articles of Association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Anti-Takeover Provisions in the Memorandum and Articles of Association. Some provisions of our current memorandum and articles of association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our memorandum and articles of association, as amended and restated from time to time, for a proper purpose and for what they believe in good faith to be in the best interests of our company.

Directors' Fiduciary Duties. Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore he owes duties to the company including the following—a duty to act in good faith in the best interests of the company, a duty not to make a personal profit based on his or her position as director (unless the company permits him to do so), a duty not to put himself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Shareholder Proposals. Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. The Delaware General Corporation Law does not provide shareholders an express right to put any proposal before the annual meeting of shareholders, but in keeping with common law, Delaware corporations generally afford shareholders an opportunity to make proposals and nominations provided that they comply with the notice provisions in the certificate of incorporation or bylaws. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our Memorandum and Articles of Association allow our shareholders holding not less than one-third of all votes attaching to all issued and outstanding shares of our company entitled to vote at general meetings to requisition a shareholder's meeting, in which case our directors shall convene an extraordinary general meeting. Other than this right to requisition a shareholders' meeting, our Memorandum and Articles of Association do not provide our shareholders other right to put proposal before annual general meetings or extraordinary general meetings not called by such shareholders. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings.

Cumulative Voting. Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. Cayman Islands law does not prohibit cumulative voting, but our Memorandum and Articles of Association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors. Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our Memorandum and Articles of Association, subject to certain restrictions as contained therein, directors may be removed with or without cause, by an ordinary resolution of our shareholders. An appointment of a director may be on terms that the director shall automatically retire from office (unless he has sooner vacated office) at the next or a subsequent annual general meeting or upon any specified event or after any specified period in a written agreement between the Company and the director, if any; but no such term shall be implied in the absence of express provision. In addition, a director's office shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) is found to be or becomes of unsound mind or dies; (iii) resigns his office by notice in writing to the company; (iv) without special leave of absence from our board of directors, is absent from three consecutive meetings of the board and the board resolves that his office be vacated; (v) is prohibited by law from being a director; or (vi) is removed from office pursuant to any other provisions of our Memorandum and Articles of Association.

Transactions with Interested Shareholders. The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation or bylaws that is approved by its shareholders, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock or who or which is an affiliate or associate of the corporation and owned 15% or more of the corporation's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding Up. Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Law and our Memorandum and Articles of Association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders, or by an ordinary resolution on the basis that our company is unable to pay its debts as they fall due.

Variation of Rights of Shares. Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our Memorandum and Articles of Association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class with the written consent of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

Amendment of Governing Documents. Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under Cayman Islands law, our Memorandum and Articles of Association may only be amended with a special resolution of our shareholders.

Rights of Non-Resident or Foreign Shareholders. There are no limitations imposed by our Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

Exempted Company. The Companies Law in the Cayman Islands distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of members is not required to be open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue no par value shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 30 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on that shareholder's shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Changes in Capital (Item 10.B.10 of Form 20-F)

Our shareholders may from time to time by ordinary resolution:

- increase our share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;

- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- sub-divide our existing shares, or any of them into shares of a smaller amount, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; or
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so canceled.

Our shareholders may by special resolution, subject to confirmation by the Grand Court of the Cayman Islands on an application by our company for an order confirming such reduction, reduce our share capital or any capital redemption reserve in any manner permitted by law.

Debt Securities (Item 12.A of Form 20-F)

Not applicable.

Warrants and Rights (Item 12.B of Form 20-F)

Not applicable.

Other Securities (Item 12.C of Form 20-F)

Not applicable.

Description of American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)

Deutsche Bank Trust Company Americas, as depositary, issues the ADSs. Each ADS represents ownership of one Class A ordinary share, deposited with Deutsche Bank AG, Hong Kong Branch, as custodian for the depositary. Each ADS also represents ownership of any other securities, cash or other property which may be held by the depositary. The depositary's corporate trust office at which the ADSs will be administered is located at 60 Wall Street, New York, NY 10005, USA. The principal executive office of the depositary is located at 60 Wall Street, New York, NY 10005, USA.

The Direct Registration System, or DRS, is a system administered by The Depository Trust Company, or DTC, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto.

The following is a summary of what we believe to be the material terms of the deposit agreement. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire deposit agreement and the form of ADR which contains the terms of your ADSs. The deposit agreement has been filed with the SEC as an exhibit to a Registration Statement on Form F-6 (File No. 333-224563) for our company.

Jurisdiction and Arbitration

We do not treat ADS holders as our shareholders and accordingly, you, as an ADS holder, do not have shareholder rights. Cayman Islands law governs shareholder rights. The depositary will be the holder of the ordinary shares underlying your ADSs. As a holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary and you, as an ADS holder, and the beneficial owners of ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. The laws of the State of New York govern the deposit agreement and the ADSs and we have agreed with the depositary that the federal or state courts in the City of New York shall have exclusive jurisdiction to hear and determine any dispute arising from or in connection with the deposit agreement and that the depositary will have the right to refer any claim or dispute arising from the relationship created by the deposit agreement to arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitration provisions of the deposit agreement do not preclude you from pursuing claims under federal securities laws in federal courts.

In addition, the deposit agreement provides that each party to the deposit agreement (including each holder, beneficial owner and holder of interests in the ADRs) irrevocably waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in any lawsuit or proceeding against the depositary or our company related to our shares, the ADSs or the deposit agreement. This provision does not apply to claims against us under federal securities laws.

Holding the ADSs

How will you hold your ADSs?

You may hold ADSs either (1) directly (a) by having an American Depositary Receipt, or ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (b) by holding ADSs in DRS, or (2) indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. ADSs will be issued through DRS, unless you specifically request certificated ADRs. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares underlying the ADSs?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent as of the record date (which will be as close as practicable to the record date for our ordinary shares) set by the depositary with respect to the ADSs. Before making a distribution, any taxes or other governmental charges, together with fees and expenses of the depositary, that must be paid, will be deducted.

- *Cash*. The depositary will convert or cause to be converted any cash dividend or other cash distribution we pay on the ordinary shares or any net proceeds from the sale of any ordinary shares, rights, securities or other entitlements under the terms of the deposit agreement into U.S. dollars if it can do so on a practicable basis, and can transfer the U.S. dollars to the United States and will distribute promptly the amount thus received. If the depositary shall determine in its judgment that such conversions or transfers are not practical or lawful or if any government approval or license is needed and cannot be obtained at a reasonable cost within a reasonable period or otherwise sought, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold or cause the custodian to hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid and such funds will be held for the respective accounts of the ADS holders. It will not invest the foreign currency and it will not be liable for any interest for the respective accounts of the ADS holders.

- *Shares*. For any ordinary shares we distribute as a dividend or free distribution, either (1) the depositary will distribute additional ADSs representing such ordinary shares or (2) existing ADSs as of the applicable record date will represent rights and interests in the additional ordinary shares distributed, to the extent reasonably practicable and permissible under law, in either case, net of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary will only distribute whole ADSs. It will try to sell ordinary shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. The depositary may sell a portion of the distributed ordinary shares sufficient to pay its fees and expenses, and any taxes and governmental charges, in connection with that distribution.

- *Elective Distributions in Cash or Shares*. If we offer holders of our ordinary shares the option to receive dividends in either cash or shares, the depositary, after consultation with us and having received timely notice as described in the deposit agreement of such elective distribution by us, has discretion to determine to what extent such elective distribution will be made available to you as a holder of the ADSs. We must timely first instruct the depositary to make such elective distribution available to you and furnish it with satisfactory evidence that it is legal to do so. The depositary could decide it is not legal or reasonably practicable to make such elective distribution available to you. In such case, the depositary shall, on the basis of the same determination as is made in respect of the ordinary shares for which no election is made, distribute either cash in the same way as it does in a cash distribution, or additional ADSs representing ordinary shares in the same way as it does in a share distribution. The depositary is not obligated to make available to you a method to receive the elective dividend in shares rather than in ADSs. There can be no assurance that you will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of ordinary shares.

- *Rights to Receive Additional Shares*. If we offer holders of our ordinary shares any rights to subscribe for additional shares, the depositary shall having received timely notice as described in the deposit agreement of such distribution by us, consult with us, and we must determine whether it is lawful and reasonably practicable to make these rights available to you. We must first instruct the depositary to make such rights available to you and furnish the depositary with satisfactory evidence that it is legal to do so. If the depositary decides it is not legal or reasonably practicable to make the rights available but that it is lawful and reasonably practicable to sell the rights, the depositary will endeavor to sell the rights and in a riskless principal capacity or otherwise, at such place and upon such terms (including public or private sale) as it may deem proper distribute the net proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

- If the depositary makes rights available to you, it will establish procedures to distribute such rights and enable you to exercise the rights upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The Depositary shall not be obliged to make available to you a method to exercise such rights to subscribe for ordinary shares (rather than ADSs).

U.S. securities laws may restrict transfers and cancelation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place. There can be no assurance that you will be given the opportunity to exercise rights on the same terms and conditions as the holders of ordinary shares or be able to exercise such rights.

- *Other Distributions*. Subject to receipt of timely notice, as described in the deposit agreement, from us with the request to make any such distribution available to you, and provided the depositary has determined such distribution is lawful and reasonably practicable and feasible and in accordance with the terms of the deposit agreement, the depositary will distribute to you anything else we distribute on deposited securities by any means it may deem practicable, upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. If any of the conditions above are not met, the depositary will endeavor to sell, or cause to be sold, what we distributed and distribute the net proceeds in the same way as it does with cash; or, if it is unable to sell such property, the depositary may dispose of such property in any way it deems reasonably practicable under the circumstances for nominal or no consideration, such that you may have no rights to or arising from such property.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our shares or any value for them if we and/or the depositary determines that it is illegal or not practicable for us or the depositary to make them available to you.

Deposit, Withdrawal and Cancelation

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposit ordinary shares or evidence of rights to receive ordinary shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons entitled thereto.

How do ADR holders cancel an ADS?

You may turn in your ADSs at the depositary's corporate trust office or by providing appropriate instructions to your broker. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the ordinary shares and any other deposited securities underlying the ADSs to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its corporate trust office, to the extent permitted by law.

How do ADS holders interchange between Certificated ADSs and Uncertificated ADSs?

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to you an ADR evidencing those ADSs.

Voting Rights

How do you vote?

You may instruct the depositary to vote the ordinary shares or other deposited securities underlying your ADSs at any meeting at which you are entitled to vote pursuant to any applicable law, the provisions of our memorandum and articles of association, and the provisions of or governing the deposited securities. Otherwise, you could exercise your right to vote directly if you withdraw the ordinary shares. However, you may not know about the meeting sufficiently enough in advance to withdraw the ordinary shares.

If we ask for your instructions and upon timely notice from us by regular, ordinary mail delivery, or by electronic transmission, as described in the deposit agreement, the depositary will notify you of the upcoming meeting at which you are entitled to vote pursuant to any applicable law, the provisions of our memorandum and articles of association, and the provisions of or governing the deposited securities, and arrange to deliver our voting materials to you. The materials will include or reproduce (a) such notice of meeting or solicitation of consents or proxies; (b) a statement that the ADS holders at the close of business on the ADS record date will be entitled, subject to any applicable law, the provisions of our memorandum and articles of association, and the provisions of or governing the deposited securities, to instruct the depositary as to the exercise of the voting rights, if any, pertaining to the ordinary shares or other deposited securities represented by such holder's ADSs; and (c) a brief statement as to the manner in which such instructions may be given or deemed given in accordance with the second to last sentence of this paragraph if no instruction is received, to the depositary to give a discretionary proxy to a person designated by us. Voting instructions may be given only in respect of a number of ADSs representing an integral number of ordinary shares or other deposited securities. For instructions to be valid, the depositary must receive them in writing on or before the date specified. The depositary will try, as far as practical, subject to applicable law and the provisions of our memorandum and articles of association, to vote or to have its agents vote the ordinary shares or other deposited securities (in person or by proxy) as you instruct. The depositary will only vote or attempt to vote as you instruct. If we timely requested the depositary to solicit your instructions but no instructions are received by the depositary from an owner with respect to any of the deposited securities represented by the ADSs of that owner on or before the date established by the depositary for such purpose, the depositary shall deem that owner to have instructed the depositary to give a discretionary proxy to a person designated by us with respect to such deposited securities, and the depositary shall give a discretionary proxy to a person designated by us to vote such deposited securities. However, no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter if we inform the depositary we do not wish such proxy given, substantial opposition exists or the matter materially and adversely affects the rights of holders of the ordinary shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the ordinary shares underlying your ADSs. In addition, there can be no assurance that ADS holders and beneficial owners generally, or any holder or beneficial owner in particular, will be given the opportunity to vote or cause the custodian to vote on the same terms and conditions as the holders of our ordinary shares.

The depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and you may have no recourse if the ordinary shares underlying your ADSs are not voted as you requested.

In order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to deposited securities, if we request the depositary to act, we will give the depositary notice of any such meeting and details concerning the matters to be voted at least 30 business days in advance of the meeting date.

Compliance with Regulations

Information Requests

Each ADS holder and beneficial owner shall (a) provide such information as we or the depositary may request pursuant to law, including, without limitation, relevant Cayman Islands law, any applicable law of the United States of America, our memorandum and articles of association, any resolutions of our Board of Directors adopted pursuant to such memorandum and articles of association, the requirements of any markets or exchanges upon which the ordinary shares, ADSs or ADRs are listed or traded, or to any requirements of any electronic book-entry system by which the ADSs or ADRs may be transferred, regarding the capacity in which they own or owned ADRs, the identity of any other persons then or previously interested in such ADRs and the nature of such interest, and any other applicable matters, and (b) be bound by and subject to applicable provisions of the laws of the Cayman Islands, our memorandum and articles of association, and the requirements of any markets or exchanges upon which the ADSs, ADRs or ordinary shares are listed or traded, or pursuant to any requirements of any electronic book-entry system by which the ADSs, ADRs or ordinary shares may be transferred, to the same extent as if such ADS holder or beneficial owner held ordinary shares directly, in each case irrespective of whether or not they are ADS holders or beneficial owners at the time such request is made.

Disclosure of Interests

Each ADS holder and beneficial owner shall comply with our requests pursuant to Cayman Islands law, the rules and requirements of the New York Stock Exchange and any other stock exchange on which the ordinary shares are, or will be, registered, traded or listed or our memorandum and articles of association, which requests are made to provide information, inter alia, as to the capacity in which such ADS holder or beneficial owner owns ADS and regarding the identity of any other person interested in such ADS and the nature of such interest and various other matters, whether or not they are ADS holders or beneficial owners at the time of such requests.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the form of ADR without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, including expenses incurred in connection with foreign exchange control regulations and other charges specifically payable by ADS holders under the deposit agreement, or materially prejudices a substantial existing right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended. If any new laws are adopted which would require the deposit agreement to be amended in order to comply therewith, we and the depositary may amend the deposit agreement in accordance with such laws and such amendment may become effective before notice thereof is given to ADS holders.

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement if we ask it to do so, in which case the depositary will give notice to you at least 90 days prior to termination. The depositary may also terminate the deposit agreement if the depositary has told us that it would like to resign, or if we have removed the depositary, and in either case we have not appointed a new depositary within 90 days. In either such case, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property and deliver ordinary shares and other deposited securities upon cancelation of ADSs after payment of any fees, charges, taxes or other governmental charges. Six months or more after the date of termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. After such sale, the depositary's only obligations will be to account for the money and other cash. After termination, we shall be discharged from all obligations under the deposit agreement except for our obligations to the depositary thereunder.

Limitations on Obligations and Liability to ADR Holders

Limits on our Obligations and the Obligations of the Depositary and the Custodian; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary and the custodian. It also limits our liability and the liability of the depositary. The depositary and the custodian:

- are only obligated to take the actions specifically set forth in the deposit agreement without gross negligence or willful misconduct;
- are not liable if any of us or our respective controlling persons or agents are prevented or forbidden from, or subjected to any civil or criminal penalty or restraint on account of, or delayed in, doing or performing any act or thing required by the terms of the deposit agreement and any ADR, by reason of any provision of any present or future law or regulation of the United States or any state thereof, the Cayman Islands or any other country, or of any other governmental authority or regulatory authority or stock exchange, or on account of the possible criminal or civil penalties or restraint, or by reason of any provision, present or future, of our memorandum and articles of association or any provision of or governing any deposited securities, or by reason of any act of God or war or other circumstances beyond its control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, revolutions, rebellions, explosions and computer failure);
- on of any exercise of, or failure to exercise, any discretion provided for in the deposit agreement or in our memorandum and articles of association or provisions of or governing deposited securities;
- are not liable for any action or inaction of the depositary, the custodian or us or their or our respective controlling persons or agents in reliance upon the advice of or information from legal counsel, any person presenting ordinary shares for deposit or any other person believed by it in good faith to be competent to give such advice or information;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement;
- are not liable for any special, consequential, indirect or punitive damages for any breach of the terms of the deposit agreement, or otherwise;

- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party;disclaim any liability for any action or inaction or inaction of any of us or our respective controlling persons or agents in reliance upon the advice of or information from legal counsel, accountants, any person presenting ordinary shares for deposit, holders and beneficial owners (or authorized representatives) of ADSs, or any person believed in good faith to be competent to give such advice or information; anddisclaim any liability for inability of any holder to benefit from any distribution, offering, right or other benefit made available to holders of deposited securities but not made available to holders of ADS.

The depositary and any of its agents also disclaim any liability (i) for any failure to carry out any instructions to vote, the manner in which any vote is cast or the effect of any vote or failure to determine that any distribution or action may be lawful or reasonably practicable or for allowing any rights to lapse in accordance with the provisions of the deposit agreement, (ii) the failure or timeliness of any notice from us, the content of any information submitted to it by us for distribution to you or for any inaccuracy of any translation thereof, (iii) any investment risk associated with the acquisition of an interest in the deposited securities, the validity or worth of the deposited securities, the credit-worthiness of any third party, (iv) for any tax consequences that may result from ownership of ADSs, ordinary shares or deposited securities, or (v) for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the depositary or in connection with any matter arising wholly after the removal or resignation of the depositary, provided that in connection with the issue out of which such potential liability arises the depositary performed its obligations without gross negligence or willful misconduct while it acted as depositary.

In the deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

Requirements for Depositary Actions

Before the depositary will issue, deliver or register a transfer of an ADS, split-up, subdivide or combine ADSs, make a distribution on an ADS, or permit withdrawal of ordinary shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any ordinary shares or other deposited securities and payment of the applicable fees, expenses and charges of the depositary;
- satisfactory proof of the identity and genuineness of any signature or any other matters contemplated in the deposit agreement; and
- compliance with (A) any laws or governmental regulations relating to the execution and delivery of ADRs or ADSs or to the withdrawal or delivery of deposited securities and (B) such reasonable regulations and procedures as the depositary may establish, from time to time, consistent with the deposit agreement and applicable laws, including presentation of transfer documents.

The depositary may refuse to issue and deliver ADSs or register transfers of ADSs generally when the register of the depositary or our transfer books are closed or at any time if the depositary or we determine that it is necessary or advisable to do so.

Your Right to Receive the Shares Underlying Your ADSs

You have the right to cancel your ADSs and withdraw the underlying ordinary shares at any time except:

- when temporary delays arise because: (1) the depositary has closed its transfer books or we have closed our transfer books; (2) the transfer of ordinary shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on our ordinary shares;
- when you owe money to pay fees, taxes and similar charges;
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of ordinary shares or other deposited securities;
- other circumstances specifically contemplated by Section I.A.(l) of the General Instructions to Form F-6 (as such General Instructions may be amended from time to time);or
- for any other reason if the depositary or we determine, in good faith, that it is necessary or advisable to prohibit withdrawals.

The depositary shall not knowingly accept for deposit under the deposit agreement any ordinary shares or other deposited securities required to be registered under the provisions of the Securities Act, unless a registration statement is in effect as to such ordinary shares.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Direct Registration System

In the deposit agreement, all parties to the deposit agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by DTC. DRS is the system administered by DTC pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an ADS holder, to direct the depositary to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depositary of prior authorization from the ADS holder to register such transfer.

Exhibit 4.14

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "**Agreement**") is made as of April 3, 2020 by and between:

(1) HUYA Inc., an exempted company incorporated with limited liability under the Laws of the Cayman Islands (the "**Company**"); and

(2) JOYY Inc., an exempted company incorporated with limited liability under the Laws of the Cayman Islands ("**JOYY**").

The Company and JOYY are herein referred to collectively as the "**Parties**," and each as a "**Party**."

RECITALS

A. As of the date hereof, JOYY is the registered holder of 84,898,282 Class B Ordinary Shares (the "Subject Shares").

B. JOYY intends to sell to Linen Investment Limited, and Linen Investment Limited intends to purchase from JOYY, 16,523,819 Class B Ordinary Shares by entering into that certain share transfer agreement (the "Share Transfer Agreement") immediately after the execution and delivery of this Agreement.

C. In connection with the Share Transfer Agreement and in order to consummate the transactions contemplated under the Share Transfer Agreement, the Company and JOYY have agreed to enter into this Agreement.

WITNESSETH

NOW, THEREFORE, in consideration of the premises set forth above, the mutual promises and covenants set forth herein and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties agree as follows:

1. Interpretation

1.1 Definitions. The following terms shall have the meanings ascribed to them below:

"**ADSs**" means the American depositary shares, each representing one Class A Ordinary Share, listed and traded on the New York Stock Exchange as of the date of this Agreement.

"**Affiliate**" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person. For purposes of this definition, "**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "**controlling**" and "**controlled**" have correlative meanings.

"**Business Day**" means a day that is not a Saturday or Sunday or any other day on which banks in the PRC, Hong Kong, the Cayman Islands or the British Virgin Islands are required or authorized to be closed.

"**Class A Ordinary Shares**" means Class A ordinary shares with a par value of US$0.0001 per share in the share capital of the Company.

"**Class B Ordinary Shares**" means Class B ordinary shares with a par value of US$0.0001 per share in the share capital of the Company.

"**Commission**" means the United States Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

"**Equity Securities**" means, with respect to any Person that is a legal entity, any and all shares of capital stock, membership interests, units, profits interests, ownership interests, equity interests, registered capital, and other equity securities of such Person, and any right, warrant, option, call, commitment, conversion privilege, preemptive right or other right to acquire any of the foregoing, or security convertible into, exchangeable or exercisable for any of the foregoing.

"**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended.

"**Form F-3**" means Form F-3 promulgated by the Commission under the Securities Act or any successor form or substantially similar form then in effect.

"**Governmental Authority**" means any transnational or supranational, domestic or foreign federal, national, state, provincial, local or municipal governmental, regulatory, judicial or administrative authority, department, court, arbitral body, agency or official, including any department, commission, board, agency, bureau, subdivision or instrumentality thereof, in each case including any successor entity performing the same or a similar function and including any arbitrator.

"**Holder**" or "**Holders**" means the holder or holders, as the case may be, from time to time of Registrable Securities.

"**Law**" means any transnational, domestic or foreign federal, national, state, provincial, local or municipal law (statutory, common or otherwise), constitution, treaty, convention, ordinance, code, rule, regulation, executive order, injunction, judgment, decree, ruling or other similar requirement enacted, adopted, promulgated or applied by a Governmental Authority.

"**Ordinary Shares**" means the Class A Ordinary Shares of the Company and any other shares of stock issued or issuable with respect thereto (whether by way of a stock dividend or stock split or in exchange for or upon conversion of such shares or otherwise in connection with a combination of shares, distribution, recapitalization, merger, consolidation, other corporate reorganization or other similar event with respect to the Ordinary Shares).

"**Person**" means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including a Governmental Authority.

"**PRC**" means the People's Republic of China, but solely for the purposes of this Agreement, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

"**Registrable Securities**" means (i) any Class A Ordinary Shares or ADSs hereafter issued by the Company to JOYY, Linen Investment Limited or any of their respective Affiliates, including any Class A Ordinary Shares or ADSs into which any Class B Ordinary Shares hereinafter issued by the Company to JOYY, Linen Investment Limited or any of their respective Affiliates may be converted; (ii) any Class A Ordinary Shares or ADSs into which the Subject Shares may be converted; and (iii) any Ordinary Shares or ADSs issued or issuable with respect to the securities referred to in clauses (i) and (ii) above by way of dividend, distribution, split or combination of securities, or any recapitalization, merger, consolidation or other reorganization; provided that, a security shall cease to be a Registrable Security upon sale to the public pursuant to a Registration Statement or Rule 144 under the Securities Act.

"**Registration Statement**" means a registration statement prepared on Form F-1, F-3, S-1 or S-3 under the Securities Act.

"**Registration**" means a registration effected by preparing and filing a Registration Statement and the declaration or ordering of the effectiveness of that Registration Statement; and the terms "**Register**" and "**Registered**" have meanings concomitant with the foregoing.

"**Rule 144**" means Rule 144 promulgated under the Securities Act.

"**Securities Act**" means the United States Securities Act of 1933, as amended.

"**Selling Expenses**" means all underwriting discounts, selling commissions and fees and expenses charged by the depositary bank relating to the issuance or transfer of American depositary shares and stock or share transfer taxes applicable to the sale of Registrable Securities pursuant to this Agreement.

"**Shareholders Agreement**" means the Amended and Restated Shareholders Agreement dated as of March 8, 2018, by and among the Company, JOYY, Linen Investment Limited and the other parties thereto.

"**Subsidiary**" means, as of the relevant date of determination, with respect to any Person (the "subject entity"), (i) any Person (x) more than 50% of whose shares or other interests entitled to vote in the election of directors or (y) more than fifty percent (50%) interest in the profits or capital of such Person are owned or controlled directly or indirectly by the subject entity or through one (1) or more Subsidiaries of the subject entity, (ii) any Person, including for the avoidance of doubt any "variable interest entity," whose financial statements, or portions thereof, are or are intended to be consolidated with the financial statements of the subject entity for financial reporting purposes in accordance with the generally accepted accounting principles of the United States, or (iii) any Person with respect to which the subject entity has the sole power to control or otherwise direct the business and policies of that entity directly or indirectly through another subsidiary or otherwise.

"**U.S.**" means the United States of America.

1.2 Interpretation. For all purposes of this Agreement, except as otherwise expressly provided, (i) the terms defined in this Clause 1 shall have the meanings assigned to them in this Clause 1 and include the plural as well as the singular, (ii) all references in this Agreement to designated "Clauses" and other subdivisions are to the designated Clauses and other subdivisions of the body of this Agreement, (iii) pronouns of either gender or neuter shall include, as appropriate, the other pronoun forms, (iv) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Clause or other subdivision, (v) all references in this Agreement to designated schedules, exhibits and annexes are to the schedules, exhibits and annexes attached to this Agreement unless explicitly stated otherwise, (vi) "or" is not exclusive, (vii) the term "including" will be deemed to be followed by ", but not limited to," (viii) the terms "shall," "will," and "agrees" are mandatory, and the term "may" is permissive, and (ix) the term "day" means "calendar day."

2. Registration Rights.

2.1 Demand Registration

(a) Registration Other Than of Form F-3. So long as JOYY holds twenty-five percent (25%) or more of the voting power of the then outstanding Registrable Securities, if the Company shall receive a written request from JOYY that the Company file a Registration Statement under the Securities Act covering the registration of all or a portion of its Registrable Securities then outstanding pursuant to this Clause 2.1(a), then the Company shall, (x) promptly give written notice of the proposed Registration to all other Holders of Registrable Securities and (y) subject only to the limitations of this Clause 2.1, as soon as practicable, use its reasonable best efforts to file a Registration Statement under the Securities Act covering all Registrable Securities specified in the request, together with any Registrable Securities of any Holder who requests in writing to join such Registration within fifteen (15) days after the Company's delivery of written notice. The Company shall be obligated to consummate (i) no more than two (2) Registrations pursuant to this Clause 2.1(a) that have been declared and ordered effective; *provided* that if the Registrable Securities sought to be included in the Registration pursuant to this Clause 2.1(a) are not fully included in the Registration for any reason other than solely due to the action or inaction of JOYY, such Registration shall not be deemed to constitute one of the registration rights granted pursuant to this Clause 2.1(a).

(b) Registration on Form F-3. The Company shall use its best efforts to qualify for registration on Form F-3. Subject to the terms of this Agreement, if the Company qualifies for registration on Form F-3, JOYY may request the Company to file a Registration Statement on Form F-3, including without limitation any registration statement filed under the Securities Act providing for the registration of, and the sale on a continuous or a delayed basis by JOYY of, all of the Registrable Securities pursuant to Rule 415 under the Securities Act and/or any similar rule that may be adopted by the Commission. Upon receipt of such a request, the Company shall (i) promptly give written notice of the proposed Registration to all other shareholders of the Company having registration rights and (ii) as soon as practicable, use its best efforts to cause the Registrable Securities specified in the request, together with any Equity Securities of any holder of registration rights who requests in writing to join such Registration within fifteen (15) days after the Company's delivery of written notice, to be Registered and qualified for sale and distribution. The Company shall be obligated to consummate (i) no more than six (6) Registrations initiated by JOYY, that have been declared and ordered effective pursuant to this Clause 2.1(b); *provided* that if the Registrable Securities sought to be included in the Registration pursuant to this Clause 2.1(b) are not fully included in such Registration for any reason other than solely due to the action or inaction of JOYY, such Registration shall not be deemed to constitute one of the Registration rights granted pursuant to this Clause 2.1(b).

(c) Underwriting. If, in connection with a request to Register the Registrable Securities under Clause 2.1(a) or Clause 2.1(b), JOYY intends to distribute the Registrable Securities covered by its request by means of an underwriting, it shall so advise the Company as a part of its request. In such event, the right of JOYY to include its Registrable Securities in such registration shall be conditional upon JOYY's participation in such underwriting and the inclusion of JOYY's Registrable Securities in the underwriting to the extent provided herein. JOYY shall enter into an underwriting agreement in customary form with the underwriter or underwriters of internationally recognized standing selected for such underwriting by the Company and reasonably acceptable to JOYY. Notwithstanding any other provision of this Agreement, if the managing underwriter advises the Company that marketing factors (including without limitation the aggregate number of securities requested to be Registered, the general condition of the market, and the status of the Persons proposing to sell securities pursuant to the Registration) require a limitation of the number of Registrable Securities to be underwritten in a Registration pursuant to Clause 2.1(a) or Clause 2.1(b), the underwriters may exclude up to seventy-five percent (75%) of the Registrable Securities requested to be Registered but only after (i) first excluding from the Registration and underwritten offering all Equity Securities that are not Registrable Securities (including those held by employees and directors of the Company, but excluding those included in the Registration pursuant to Section 3 of the Shareholders Agreement), and (ii) second excluding from the Registration and underwritten offering Equity Securities included in the Registration pursuant to Section 3 of the Shareholders Agreement, so long as the number of Equity Securities to be included in the Registration on behalf of the non-excluded holders in this clause (ii), if any, is allocated among all such non-excluded holders in proportion, as nearly as practicable, to the respective amounts of Equity Securities requested by such holders to be included; provided that JOYY shall have the right to withdraw its request for Registration from the underwriting by written notice to the Company and the underwriters delivered at least ten (10) days prior to the effective date of the Registration Statement, and such withdrawal request for Registration shall not be deemed to constitute one of the Registration rights granted pursuant to Clause 2.1(a) or Clause 2.1(b), as the case may be. Any Registrable Securities excluded or withdrawn from such underwritten offering shall be withdrawn from the Registration. To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to a Holder to the nearest one hundred (100) shares.

(d) Deferral.

(i) Notwithstanding the foregoing, the Company shall not be obligated to effect, or to take any action to effect, any Registration pursuant to this Clause 2.1:

(1) if, within ten (10) days of the receipt of any request of JOYY to Register any Registrable Securities under Clause 2.1(a) or Clause 2.1(b), the Company gives notice to JOYY of its bona fide intention to effect the filing for its own account of a Registration Statement of Ordinary Shares within sixty (60) days of receipt of that request; *provided* that the Company is actively employing in good faith its reasonable best efforts to cause that Registration Statement to become effective within sixty (60) days of receipt of that request; *provided*, *further*, that JOYY is entitled to join such Registration in accordance with Clause 2.2 (other than an Exempt Registration);

(2) during the period starting with the date of filing by the Company of, and ending six (6) months following the effective date of any Registration Statement pertaining to Ordinary Shares other than an Exempt Registration; *provided* that JOYY is entitled to join such Registration in accordance with Clause 2.2; or

(3) in any jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such Registration or qualification, unless the Company is already subject to service of process in such jurisdiction and except as may be required by the Securities Act.

(ii) If, after receiving a request from JOYY pursuant to Clause 2.1(a) or Clause 2.1(b), the Company furnishes to JOYY a certificate signed by the chief executive officer of the Company stating that, in the good faith judgment of its board of directors, it would be materially detrimental to the Company or its members for a Registration Statement to be filed in the near future, then the Company shall have the right to defer such filing for a period during which such filing would be materially detrimental; *provided* that the Company may not utilize this right for more than ninety (90) days on any one occasion or more than once during any twelve (12) month period; *provided*, *further*, that the Company may not Register any other its securities during such period (except for Exempt Registrations).

2.2 Piggyback Registrations.

(a) Piggyback Registrations. If the Company proposes to Register for its own account any of its Equity Securities, or for the account of any holder of Equity Securities any of such holder's Equity Securities, in connection with the public offering of such securities (other than an Exempt Registration), the Company shall promptly give JOYY written notice of such registration. Upon the written request of JOYY given within fifteen (15) days after delivery of such notice by the Company in accordance with this Agreement, the Company shall, subject to the provisions of Clause 2.2(c), use its best efforts to include in such Registration any Registrable Securities thereby requested to be Registered by JOYY. If JOYY decides not to include all or any of its Registrable Securities in such Registration by the Company, JOYY shall nevertheless continue to have the right to include any Registrable Securities in any subsequent Registration Statement or Registration Statements as may be filed by the Company, all upon the terms and conditions set forth herein. There shall be no limit on the number of times JOYY may request registration of Registrable Securities under this Clause 2.2.

(b) Right to Terminate Registration. The Company shall have the right to terminate or withdraw any Registration initiated by it under this Clause 2.2 prior to the effectiveness of such Registration, whether or not JOYY has elected to participate therein. The expenses of such withdrawn Registration shall be borne by the Company in accordance with Clause 2.5.

(c) Underwriting. If a Registration Statement under which the Company gives notice under this Clause 2.2 is for an underwritten offering, then the Company shall so advise JOYY. In such event, the right of JOYY to be included in a registration pursuant to this Clause 2.2 shall be conditional upon JOYY's participation in such underwriting and the inclusion of JOYY's Registrable Securities in the underwriting to the extent provided herein and JOYY enter into an underwriting agreement in customary form with the underwriter or underwriters of internationally recognized standing selected for such underwriting by the Company and setting forth such terms for the underwritten offering as have been agreed upon between the Company and the underwriters. In the event the underwriters advise JOYY in writing that market factors (including the aggregate number of Registrable Securities requested to be Registered, the general condition of the market, and the status of the Persons proposing to sell securities pursuant to the Registration) require a limitation of the number of shares to be underwritten, the underwriters may exclude up to seventy-five percent (75%) of the Registrable Securities requested to be Registered but only after (i) first excluding all other Equity Securities (including the Equity Securities held by employees and directors of the Company, but excluding securities sold for the account of the Company and Equity Securities included in the Registration pursuant to Section 2.4 or Section 3 of the Shareholders Agreement, if any) from the Registration and underwritten offering, and (ii) second excluding from the Registration and underwritten offering (A) all Registrable Securities held by Holders and (B) all Equity Securities included in the Registration pursuant to Section 3 of the Shareholders Agreement, if any, and so long as the number of shares to be included in the Registration on behalf of the non-excluded holders in (A) and (B) above is allocated among all such non-excluded holders in proportion, as nearly as practicable, to the respective amounts of Equity Securities requested by such holders to be included. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the Registration. If JOYY disapproves of the terms of any such underwriting, JOYY may elect to withdraw therefrom by written notice to the Company and the underwriters) delivered at least ten (10) Business Days prior to the effective date of the Registration Statement. Any Registrable Securities excluded or withdrawn from such underwritten offering shall be withdrawn from the Registration.

(b) Not Demand Registration. Registration pursuant to this Clause 2.2 shall not be deemed to be a demand registration as described in Clause 2.1. Except as otherwise provided herein, there shall be no limit on the number of times JOYY may request registration of Registrable Securities under this Clause 2.2.

(c) Exempt Registrations. The Company shall have no obligation to Register any Registrable Securities under this Clause 2.2 in connection with a Registration by the Company (i) relating solely to the sale of securities to participants in a Company share incentive plan, (ii) relating to a corporate reorganization or other transaction under Rule 145 of the Securities Act (or comparable provision under the Laws of another jurisdiction, as applicable), (iii) on any form that does not include substantially the same information as would be required to be included in a Registration Statement covering the sale of the Registrable Securities and does not permit secondary sales (collectively, "**Exempt Registrations**").

2.3 Obligations of the Company. Whenever required to effect the registration of any Registrable Securities under this Agreement, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the Commission a Registration Statement with respect to such Registrable Securities and use all its reasonable best efforts to cause such Registration Statement to become effective, and, upon the request of JOYY, keep such Reregistration Statement effective until the distribution thereunder has been completed;

(b) Prepare and file with the Commission such amendments and supplements to such Registration Statement and the prospectus used in connection with such Registration Statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement;

(c) Furnish to JOYY such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as it may reasonably request in order to facilitate the disposition of the Registrable Securities owned by it;

(d) Use its reasonable best efforts to Register and qualify the securities covered by such Registration Statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by JOYY; *provided* that the Company shall not be required to qualify to do business or to file a general consent to service of process in any such states or jurisdictions, unless the Company is already subject to service of process in such jurisdiction and except as may be required by the Securities Act;

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement in customary form, with the managing underwriter(s) of such offering;

(f) Promptly notify JOYY at any time when a prospectus relating thereto is required to be delivered under the Securities Act of (i) the issuance of any stop order by the Commission, or (ii) the happening of any event or the existence of any condition as a result of which any prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made, or if in the opinion of counsel for the Company it is necessary to supplement or amend such prospectus to comply with law, and at the request of JOYY promptly prepare and furnish to JOYY a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made or such prospectus, as supplemented or amended, shall comply with law;

(g) Furnish, at the request of JOYY, on the date that such Registrable Securities are delivered for sale in connection with a Registration pursuant to this Agreement, (A) an opinion, dated the date of the sale, of the counsel representing the Company for the purposes of the Registration, in form and substance as is customarily given to underwriters in an underwritten public offering, and (B) comfort letters dated as of (x) the effective date of the final registration statement covering such Registrable Securities, and (y) the closing date of the sale of the Registrable Securities, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters;

(h) Otherwise comply with all applicable rules and regulations of the Commission to the extent applicable to the applicable Registration Statement and use its reasonable best efforts to make generally available to its security holders (or otherwise provide in accordance with Section 11(a) of the Securities Act) an earnings statement satisfying the provisions of Section 11(a) of the Act, no later than forty-five (45) days after the end of a twelve (12) month period (or ninety (90) days, if such period is a fiscal year) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of such registration statement, which statement shall cover such twelve (12) month period, subject to any proper and necessary extensions;

(i) Not, without the written consent of JOYY, make any offer relating to the Registrable Securities that would constitute a "free writing prospectus," as defined in Rule 405 promulgated under the Act;

(j) Provide a transfer agent and registrar for all Registrable Securities registered pursuant to the Registration Statement and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such Registration; and

(k) Take all reasonable action necessary to list the Registrable Securities on each securities exchange on which the Equity Securities of the Company are then traded.

2.4 Furnish Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Clause 2 with respect to the Registrable Securities of JOYY that JOYY shall furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of such securities as shall be required to effect the registration of its Registrable Securities.

2.5 Expenses of Registration. All expense, but excluding the underwriting discounts, selling commissions, expenses charged by the depositary bank and transfer tax applicable the sale of Registrable Securities pursuant to this Agreement (which shall be borne by JOYY), incurred in connection with Registrations, filings or qualifications pursuant to this Agreement, including (without limitation) all Registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company and reasonable fees and disbursements of one (1) counsel for JOYY, shall be borne by the Company.

2.6 Assignment of Registration Right. The rights to cause the Company to register Registrable Securities pursuant to this Clause 2 may be assigned (but only with all related obligations) by JOYY to an Affiliate of JOYY or a third party transferee, including Linen Investment Limited or an Affiliate of Linen Investment Limited, of all or any of the Subject Shares; *provided* that (a) the Company is furnished with written notice of the name and address of such transferee and the Registrable Securities with respect to which such rights are being transferred, and (b) such transferee agrees in a written instrument delivered to the Company to be bound by the terms and conditions of this Agreement. Reference to JOYY in this Agreement shall include such third party transferee as a right holder, with the rights and obligations of JOYY and such third party transferee being in proportion to their then respective holding of the Registrable Securities unless otherwise agreed between JOYY and such third party transferee in the aforementioned written instrument.

2.7 Reports Under the Exchange Act. With a view to making available to JOYY the benefits of Rule 144 promulgated under the Securities Act and any other rule or regulation of the Commission that may at any time permit JOYY to sell securities of the Company to the public without Registration or pursuant to a registration on Form F-3, the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144, at all times after ninety (90) days after the effective date of the first Registration Statement filed by the Company for the offering of its securities to the general public so long as the Company remains subject to the periodic reporting requirements under Sections 13 or 15(d) of the Exchange Act;

(b) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(c) promptly furnish to JOYY, so long as JOYY owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144 (at any time after the effective date of the first Registration Statement filed by the Company), the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form F-3 (at any time after it so qualifies), (ii) a copy of the most recent annual report of the Company and such other reports and documents so filed by the Company, (iii) such other information as may be reasonably requested in availing JOYY of any rule or regulation of the Commission which permits the selling of any such securities without Registration or pursuant to Form F-3, and (iv) a special legal opinion issued by a qualified counsel, at the cost of the Company, confirming that JOYY meets the requirements of Rule 144 of the Securities Act.

2.8 Limitations on Subsequent Registration Rights. So long as JOYY holds fifty percent (50%) or more of the voting power of the then outstanding Registrable Securities, from and after the date of this Agreement, the Company shall not, without the prior written consent of JOYY, enter into any agreement with any holder or prospective holder of any Equity Securities that would give such holder or prospective holder the right to (i) include such Equity Securities in any Registration filed under this Clause 2, unless under the terms of such agreement such holder or prospective holder may include such Equity Securities in any such Registration only to the extent that the inclusion of such Equity Securities will not reduce the amount of the Registrable Securities of JOYY that are included, (ii) demand Registration of their Equity Securities, or (iii) cause the Company to include such Equity Securities in any Registration filed under this Clause 2 hereof on a basis pari passu with or more favorable to such holder or prospective holder than is provided to JOYY hereunder.

2.9 Termination. The registration rights set forth in this Clause 2 shall terminate on the earlier of (i) the date that is five (5) years from the date of closing of the transactions contemplated under the Share Transfer Agreement, and (ii) the date on which JOYY may sell all of its Registrable Securities under Rule 144 in any ninety (90)-day period provided that JOYY has received a special legal opinion issued by a qualified counsel, at the cost of the Company, confirming that JOYY meets the requirements of Rule 144 of the Securities Act.

3. Indemnification

3.1 Indemnification by the Company. In the event of a Registration under this Agreement, to the maximum extent permitted by Law, the Company shall indemnify and hold harmless (absent fraud, willful default or misconduct of such Person being indemnified) JOYY, each of its partners, officers, directors, employees, shareholders, members, and legal counsel, any underwriter (as defined in the Securities Act) and each Person, if any, who controls (as defined in the Securities Act) JOYY or underwriter, against any losses, claims, damages or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or any state securities laws and relate to action or inaction required of the Company in connection with any Registration, qualification, or compliance, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (each a "**Violation**"):

(a) any untrue statement or alleged untrue statement of a material fact contained in such Registration Statement (on the effective date thereof (including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto);

(b) the omission or alleged omission to state in the Registration Statement, on the effective date thereof (including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto), a material fact required to be stated therein or necessary to make the statements therein not misleading; or

(c) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law;

and the Company shall reimburse JOYY, underwriter or their respective controlling Person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; *provided* that the indemnity agreement contained in this Clause 3.1 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld or delayed), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises solely out of or is solely based upon a Violation that occurs in reliance upon and in conformity with written information furnished for use in connection with such Registration by JOYY, its partners, officers, directors, and legal counsel, any underwriter (as defined in the Securities Act) and each Person, if any, who controls (as defined in the Securities Act) JOYY or underwriter. The indemnity agreement contained in this Clause 3.1 shall be in addition to any liability the Company may otherwise have. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of JOYY or any indemnified party under this Clause 3.1 and shall survive the transfer of securities by JOYY or any indemnified party.

3.2 Indemnification by JOYY. In the event of a Registration under this Agreement, to the maximum extent permitted by Law, JOYY shall indemnify and hold harmless the Company, its directors, officers, employees, and legal counsel for the Company, any underwriter (as defined in the Securities Act), and each Person, if any, who controls (as defined in the Securities Act) the Company or such underwriter, against any losses, claims, damages or liabilities to which any of the foregoing Persons may become subject, under the Securities Act, the Exchange Act or any state securities laws, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs solely in reliance upon and in conformity with written information furnished by JOYY expressly for use in connection with such Registration; and JOYY shall reimburse any Person intended to be indemnified pursuant to this Clause 3.2 for any legal or other expenses reasonably incurred by such Person in connection with investigating or defending any such loss, claim, damage, liability or action; *provided* that the indemnity contained in this Clause 3.2 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of JOYY (which consent shall not be unreasonably withheld or delayed); *provided further* that in no event shall any indemnity under this Clause 3.2 (when combined with any amounts paid by JOYY pursuant to Clause 3.4) exceed the net proceeds received by JOYY from the offering of securities made in connection with that Registration.

3.3 Notices of Claims. Promptly after receipt by an indemnified party under this Clause 3 of notice of the commencement of any action (including any governmental action), such indemnified party shall, if a claim in respect thereof is to be made against any indemnifying party under this Clause 3, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties. An indemnified party (together with all other indemnified Parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the reasonable fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Clause 3 to the extent the indemnifying party is prejudiced as a result thereof, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Clause 3. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or the plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

3.4 Contribution. If any indemnification provided for in this Clause 3 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage or expense referred to herein, the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party, on the one hand, and of the indemnified party, on the other, in connection with the statements or omissions that resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission; *provided* that in any such case: (A) JOYY will not be required to contribute any amount (after combined with any amounts paid by such Holder pursuant to Clause 3.2) in excess of the net proceeds to JOYY from the sale of all such Registrable Securities offered and sold by JOYY pursuant to such Registration Statement; and (B) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

3.5 Underwriting Agreement. To the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

3.6 Survival; Consents to Judgments and Settlements. The obligations of the Company and JOYY under this Clause 3 shall survive the completion of any offering of Registrable Securities in a Registration Statement, regardless of the expiration of any statutes of limitation or extensions of such statutes. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

4. Miscellaneous.

4.1 Governing Law. This Agreement shall be governed by and construed under the Laws of the State of New York.

4.2 Dispute Resolution. Any dispute, controversy or claim arising out of or relating to this Agreement, including, but not limited to, any question regarding the breach, termination or invalidity thereof shall be finally resolved by Hong Kong International Arbitration Centre (the "**HKIAC**") in accordance with the HKIAC administered rules (the "**Rules**") in force at the time of commencement of the arbitration, which Rules are deemed to be incorporated by reference into this Clause. The number of arbitrators shall be three and shall be selected in accordance with the Rules. All selections shall be made within thirty (30) days after the selecting party gives or receives, as the case may be, the demand for arbitration. The seat of the arbitration shall be in Hong Kong and the language to be used shall be English. Any arbitration award shall be (i) in writing and shall contain the reasons for the decision, (ii) final and binding on the parties hereto and (iii) enforceable in any court of competent jurisdiction, and the parties hereto agree to be bound thereby and to act accordingly.

4.3 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimile and e-mailed copies of signatures shall be deemed to be originals for purposes of the effectiveness of this Agreement.

4.4 Notices. All notices and other communications under this Agreement shall be in writing and shall be given:

To the Company at:

Huya Inc.
Building A3, E-Park
280 Hanxi Road
Panyu District, Guangzhou 511446
People's Republic of China
Attention: Catherine Liu
Email:

To JOYY at:

29/F, Building B-1, North Block of Wanda Plaza
No. 79 Wanbo Er Road, Nancun Town, Panyu District
Guangzhou, China 511442
Attention: Jin Bing
Email:

or such other address, telephone number, facsimile number or email address as the Company or JOYY may hereafter specify by notice to each other. Each such notice or other communication shall be deemed effectively given (i) when hand delivered to a Party, upon delivery, (ii) upon confirmation of transmission by the transmitting equipment, if sent by facsimile transmission, or upon confirmation of receipt by non-automated reply email from the recipient's email system or from the recipient, if sent by e-mail (*provided* that any notice received by facsimile or e-mail transmission or otherwise at the addressee's location on any Business Day after 5:00 p.m. (local time) shall be deemed to have been received at 9:00 a.m. (local time) on the next Business Day), or (iii) two (2) Business Days after deposit with a recognized overnight courier, freight prepaid, with written verification of receipt.

4.5 Entire Agreement. This Agreement constitutes the entire agreement between the Parties pertaining to the subject matter hereof, and supersedes all other agreements between or among any of the Parties with respect to the subject matter hereof.

4.6 Amendments and Waivers. The provisions of this Agreement may be amended or modified only upon the prior written consent of all Parties. The failure of any Party to enforce any of the provisions of this Agreement shall in no way be construed as a waiver of such provisions and shall not affect the right of such Party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

4.7 Severability. If a provision of this Agreement is held to be unenforceable under applicable Laws, such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

4.8 Further Assurances. The Parties agree to execute such further instruments and to take such further actions as may be reasonably necessary to carry out the intent of this Agreement.

4.9 No Presumption. The Parties acknowledge that any applicable Law that would require interpretation of any claimed ambiguities in this Agreement against the Party that drafted it has no application and is expressly waived. If any claim is made by a Party relating to any conflict, omission or ambiguity in the provisions of this Agreement, no presumption or burden of proof or persuasion will be implied because this Agreement was prepared by or at the request of any Party or its counsel.

[The remainder of this page has been intentionally left blank.]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date first above written.

HUYA Inc.

By: /s/ Rongjie Dong
Name: Rongjie Dong
Title: Director and Chief Executive Officer

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date first above written.

JOYY Inc.

By: /s/ Xueling Li
Name: Xueling Li
Title: Chairman and Chief Executive Officer

Exhibit 4.15

Execution Version

WRITTEN ACKNOWLEDGEMENT TO REGISTRATION RIGHTS AGREEMENT

April 3, 2020

Reference is hereby made to the Registration Rights Agreement dated as of April 3, 2020, by and between HUYA Inc., an exempted company incorporated with limited liability under the laws of the Cayman Islands (the "**Company**") and JOYY Inc., an exempted company incorporated with limited liability under the laws of the Cayman Islands (the "**JOYY**"), pursuant to which the Company has agreed to grant to JOYY certain registration rights with respect to Registrable Securities (the "**Registration Rights Agreement**"). Capitalized terms used but otherwise undefined herein shall have the same meaning ascribed to them in the Registration Rights Agreement.

WHEREAS, pursuant to Section 2.6 of the Registration Rights Agreement, registration rights of Registrable Securities may be assigned by JOYY to a third party transferee of all or any of the Subject Shares in accordance with the terms and conditions set forth thereunder.

WHEREAS, pursuant to the share transfer agreement dated as of April 3, 2020 entered into by and between JOYY and Linen Investment Limited, an exempted company incorporated with limited liability under the Laws of the British Virgin Islands ("**Linen Investment**"), JOYY has transferred to Linen Investment and Linen Investment has received from JOYY 16,523,819 Class B ordinary shares of the Company.

NOW THEREFORE, Linen Investment hereby agree as follows:

1. Linen Investment hereby acknowledges, agrees and confirms that, by executing this letter, it shall be deemed to be a party to the Registration Rights Agreement as of the date hereof and shall have all of the rights and obligations of JOYY in proportion to its holding of the Registrable Securities as if it had executed the Registration Rights Agreement. Linen Investment hereby agrees to be bound by the terms and conditions of the Registration Rights Agreement.

2. Any notice required or permitted by the Registration Rights Agreement shall be given to Linen Investment at the address listed below:

Tencent Binhai Towers
No.33 Haitian 2nd Road, Nanshan District,
Shenzhen, P. R. China 518054
Attention: ******
Email: ******

With a copy to:

Latham & Watkins LLP
18th Floor, One Exchange Square,
8 Connaught Place, Central,
Hong Kong
Attention: ******
Email: ******

3. This letter is effective as of the date hereof and is binding on all successors of Linen Investment.

4. This letter shall be governed by and construed under the Laws of the State of New York.

[*Signature Page Follows*]

ACKNOWLEDGED, ACCEPTED AND AGREED TO
as of the date first written above:

Linen Investment Limited

By: /s/ Huateng Ma
Name: Huateng Ma
Title: Authorized Signatory

Exhibit 8.1

Principal Subsidiaries and Variable Interest Entities of HUYA Inc.

Subsidiaries	**Jurisdiction of Incorporation**
Tiger Information Technology Inc.	Cayman Islands
HUYA PTE. LTD.	Singapore
Huya Limited	Hong Kong
Guangzhou Huya Technology Co., Ltd.	PRC
Variable Interest Entities	
Guangzhou Huya Information Technology Co., Ltd.	PRC
Guangzhou Yaoguo Information Technology Co., Ltd.	PRC
Guangzhou Dachafan Entertainment Co., Ltd.	PRC

Exhibit 12.1

Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Rongjie Dong, certify that:

1. I have reviewed this annual report on Form 20-F of HUYA Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 27, 2020

By: /s/ Rongjie Dong
Name: Rongjie Dong
Title: Chief Executive Officer

Exhibit 12.2

Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Catherine Xiaozheng Liu, certify that:

1. I have reviewed this annual report on Form 20-F of HUYA Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 27, 2020

By: /s/ Catherine Xiaozheng Liu
Name: Catherine Xiaozheng Liu
Title: Chief Financial Officer

Exhibit 13.1

Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of HUYA Inc. (the "Company") on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rongjie Dong, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2020

By: /s/ Rongjie Dong
Name: Rongjie Dong
Title: Chief Executive Officer

Exhibit 13.2

Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of HUYA Inc. (the "Company") on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Catherine Xiaozheng Liu, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2020

By: /s/ Catherine Xiaozheng Liu
Name: Catherine Xiaozheng Liu
Title: Chief Financial Officer

Exhibit 15.1

Our ref VSL/738622-000001/16375338v2

HUYA Inc.
Building A3, E-Park
280 Hanxi Road
Panyu District, Guangzhou 511446
People's Republic of China

27 April 2020

Dear Sirs and/or Madams

HUYA Inc.

We have acted as legal advisers as to the laws of the Cayman Islands to HUYA Inc., an exempted company incorporated in the Cayman Islands with limited liability (the "**Company**"), in connection with the filing by the Company with the United States Securities and Exchange Commission (the "**SEC**") of an annual report on Form 20-F for the year ended 31 December 2019 (the "**Annual Report**").

We hereby consent to the reference to our firm under the headings "Item 5.A. Operating and Financial Review and Prospects—Operating Results" and "Item 10.E. Additional Information—Taxation—Cayman Islands Taxation" in the Annual Report, and we further consent to the incorporation by reference of the summary of our opinions under these headings into the Company's registration statement on Form S-8 (File No. 333-227336) that was filed on 14 September 2018, pertaining to the Company's Amended and Restated 2017 Share Incentive Plan.

We consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully

/s/ Maples and Calder (Hong Kong) LLP

Maples and Calder (Hong Kong) LLP

Exhibit 15.2

通商律師事務所
COMMERCE & FINANCE LAW OFFICES
中国北京市建国门外大街甲 12 号新华保险大厦 6 层 100022
6/F, NCI Tower, A12 Jianguomenwai Avenue, Beijing 100022, China
电话 Tel: +86 10 6569 3399 传真 Fax: +86 10 6569 3838
电邮 Email: beijing@tongshang.com 网址 Web: www.tongshang.com

April 27, 2020

HUYA Inc.
Building A3, E-Park
280 Hanxi Road
Panyu District, Guangzhou 511446
People's Republic of China

Dear Sirs/Madams:

We consent to the reference of our name under the headings "Item 3. Key Information —D. Risk Factors," "Item 4. Information on the Company —B. Business Overview — PRC Regulations," "Item 4. Information on the Company —C. Organizational Structure," "Item 5. Operating and Financial Review and Prospects —C. Operating Results," and "Item 10. Additional Information —E. Taxation," in HUYA Inc.'s Annual Report on Form 20-F for the year ended December 31, 2019 (the "**Annual Report**"), which will be filed with the Securities and Exchange Commission (the "**SEC**") in the month of April 2020, and further consent to the incorporation by reference of the summaries of our opinions under these captions into HUYA Inc.'s Registration Statement on Form S-8 (No. 333-227336) that was filed on September 14, 2018. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully,

/s/ Commerce & Finance Law Offices
Commerce & Finance Law Offices

Exhibit 15.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-227336) of HUYA Inc. of our report dated April 27, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Guangzhou, the People's Republic of China
April 27, 2020